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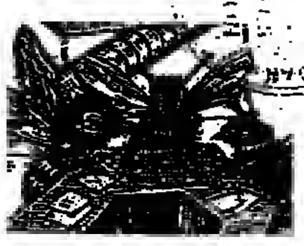
FINANCIAL TIMES

Start the week with...



Management
Office space the final frontier
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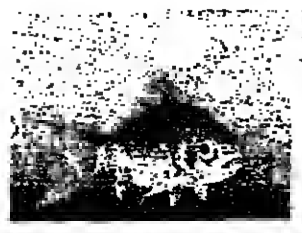

Marketing & Media
Goldfish enflame trademark war
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World Business Newspaper http://www.FT.com MONDAY DECEMBER 23 1996

Steve Jobs to help rejuvenate Apple software

Steve Jobs (below), co-founder of Apple Computer, the US company that pioneered the commercialisation of the personal computer, is again to play a key role in Apple's future. Apple announced it intends to acquire NeXT Software, the company formed by Mr Jobs 11 years ago, soon after he was ousted by Apple's board of directors. The $400m deal will provide Apple with technology it urgently needs to rejuvenate its ageing Macintosh software. Mr Jobs will act as a part-time adviser to Apple chairman and chief executive Gil Amelio. Page 17

US attacks China over Hong Kong: China's appointment of a legislature for Hong Kong to replace the elected Legislative Council when the territory returns to China next July, prompted criticism from the US, which urged new elections in the territory. Page 4

Brussels criticised over BSE: The European Commission sought to minimise the threat to consumers from mad cow disease in a way that "could be construed as misinformation", a draft report from the European Parliament says. The British government is criticised for failing to contain the disease. Page 16

Germans to sell dishwashers in US: A German joint venture between Robert Bosch and Siemens plans to sell dishwashers in the US that use European technology to save on water and energy. They will be up to 50 per cent more expensive than American products. Page 17

Liberal Russians seek to buy Pravda: A group of liberal journalists and Gazprom, Russia's natural gas monopolist, hope to buy Pravda, Russia's most famous communist newspaper and make it the populist voice of Russia's new capitalist establishment. Page 16

Greek farmers end protest: Greek farmers ended a 24-day protest against the Socialist government's economic policy, but failed to win concessions. Page 2

Investor attacks Brazilian store chain: Mark Mobius, a leading investor in emerging markets, hopes to launch a shareholder campaign against Mesbla, the troubled Brazilian department store chain. Mr Mobius disputes the company's calculation of the value of its assets. Page 17

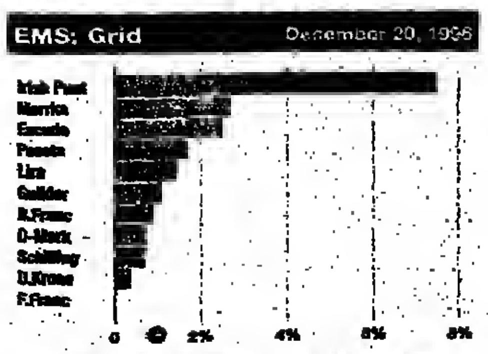
Qatar gas project wins $570m loan: Qatar Liquefied Gas Company signed a 12-year $570m loan with four foreign banks to fund part of its "upstream" construction. Much of its production will be shipped to Japan. Page 3

The Fat One pays out: Spain's national lottery, which claims to be the world's richest, paid out a first prize of Pt35bn ($252m) to a 120-strong syndicate in its Christmas draw. The draw, dubbed *El Gordo* (the Fat One) was worth a total of Pt 166bn.

Draw makes test history: The first cricket test between Zimbabwe and England in Bulawayo ended in a draw with the scores level on the fifth and final day. It was the first level draw in test history. The scores were: Zimbabwe 376 and 234, England 406 and 204-6.

European Monetary System: The spread between the strongest and weakest currencies in the EMS grid widened last week. The Irish punt remained the strongest currency, continuing to rally as the UK pound strengthened over the week. The French franc remained the weakest currency. Currencies, Page 24

EMS: Grid December 20, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

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Cyprus	C£1.30	Iceland	Ikr260	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kč70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
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France	FFr12.00	Kuwait	Fils.750	Portugal (m'land)	Es266	Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500			UAE	Dh13.00

Bonn minister attacks 'unfair' EU tax havens

Germany plans campaign against rivals

By Peter Norman in Bonn and Christopher Brown-Humes in London

Germany wants the European Union to stamp out allegedly unfair national tax practices which it says give foreign financial centres competitive advantages.

Mr Jürgen Stark, a finance ministry state secretary, said Bonn was planning a campaign against "tax havens" in the EU and would put forward ideas for a fairer European tax structure at the end of next month.

He was especially critical of the UK, which he said used its tax system as a "weapon" against Frankfurt.

Mr Stark mentioned Ireland, the Netherlands and Belgium as countries with tax policies that weakened the competitive position of the German financial services sector. He expressed concern about different policies on taxation of profits from share sales.

He claimed City of London bankers were given special treatment, which meant their personal tax burden was significantly lower than that of their German counterparts.

Ms Leslie Ferrar, tax partner with accountants KPMG, said this could refer to the position of Britons living abroad, who were able to minimise taxation on work done outside the UK.

The Bonn tax initiative was among ideas discussed last week when Mr Stark met the country's top bankers, investors and stock exchange officials to find ways of strengthening Germany's financial centres ahead of the planned introduction of the single European currency in 1999 and to build on the recent success of the Deutsche Telekom share flotation.

The Bonn finance ministry fears Frankfurt and other financial centres could lose out from the replacement of the D-Mark by the euro because they will no longer benefit from the D-Mark as an international reserve currency or as the European anchor currency.

Its concern was heightened by the experience of the Telekom part-privatisation, which exposed competitive disadvantages in Germany's financial sector, including labour laws that made it difficult to secure staff for overtime and weekend working in the crucial final days before the international share listing in November.

Mr Stark said Germany needed more flexible labour conditions in the financial sector.

Another problem lay in the education system. Germany was unable to provide vocational training for investment bankers at present, he said. Other issues included how best to increase investor interest in equity issues and encourage enterprise in Germany.

The Bonn government believes it has already played a big part in promoting financial services in Germany. The cabinet last week gave its approval to 400 pages of draft legislation to bring its bank and stock exchange laws into harmony with EU directives and to regulate the "grey" capital market, a regular source of financial scandals. A bill to widen the range of opportunities open to investors will come early next year.

However, some decisions are still in abeyance. These include a proposal, backed by the Bundesbank and the large private banks, to redenominate existing D-Mark public debt in euros from January 1 1999.

Germany, faced with record unemployment, intends to strengthen the role of services as a provider of jobs. Mr Günter Rexrodt, Bonn economics minister, said he would produce a service sector "action plan" in the spring in addition to existing government efforts to reform the economy and boost employment.

Page 2

Peru guerrillas score media advantage

Peru's president Alberto Fujimori addresses his country on the Lima hostage crisis. The leftwing guerrillas who have seized the Japanese ambassador's residence scored a propaganda victory yesterday by releasing interviews with hostages freed on Friday. Report, Page 16 Reuter

Electricity group's fate hinges on appeal ruling

By Simon Holberton in London

The survival of Britain's Northern Electric as an independent power group depends on the outcome of an expected appeal to the UK Takeover Panel that it should not be penalised for the actions of its investment banking adviser, Barclays de Zoete Wedd.

It also emerged yesterday that the panel, the country's takeover watchdog, has frozen the payment of a controversial £250,000 performance fee by Northern to BZW.

Northern's board was meeting in emergency session last night. It is expected to lodge a formal appeal against Friday's Takeover Panel ruling which extended the deadline for the £782m ($1.3bn) hostile bid by CalEnergy of the US for the electricity company until lunchtime on December 24.

Without this extension, Northern would have retained its independence – after the offer's official close on Friday, CalEnergy owned or had received acceptances for only 49.77 per cent of Northern.

Over the weekend, however, CalEnergy counted late acceptances and had 50.03 per cent of Northern, giving it victory by a tiny margin.

The panel extended the deadline after it learned of an arrangement to pay the performance fee to BZW, which insisted yesterday it had broken neither the law nor the Takeover Code. The panel suspected the fee was linked to purchases of Northern shares by BZW, although BZW strongly denies this.

BZW said it only became aware of the need to inform the panel of the fee after it read the panel's earlier ruling on share purchases by it and Schroders, another Northern adviser.

The panel said on Wednesday that BZW and Schroders were allowed to buy shares in Northern because they had given assurances that the purchases were on an "arm's length basis" and that there would be "no change to the flat-fee basis of [BZW's] remuneration under the offer".

BZW's fee consisted of a £1.5m flat fee and a £250,000 bonus related to the quality of BZW's advice to Northern.

A BZW spokesman said: "It was a very straightforward arrangement. This £250,000 fee in no way was associated with the purchase of shares. It was put to Northern at the outset that we could earn a discretionary fee relating to the quality of our advice."

Late on Friday, the panel disqualified BZW and Schroders, Northern's advisers, from buying more Northern shares in the market.

Lex, Page 16

Ulster on brink of full-scale violence

By John Kampfner in London

Northern Ireland was last night on the brink of a return to full-scale conflict after a leading republican was injured in a bomb attack widely seen as marking the resumption of loyalist terrorism.

With little prospect of progress in the failing multi-party talks – and London and Dublin deeply split over the terms for any future IRA ceasefire – the mood in the province is bleaker than at any time in the past three years.

Mr Eddie Copeland, a leading republican, suffered leg injuries after a booby-trap detonated under his car in north Belfast, apparently in revenge for an assassination attempt on a senior unionist on Friday.

Loyalist politicians admitted the incident could lead to the Ulster Democratic party and the Progressive Unionists, the political wing of the loyalist paramilitaries, being ejected from the all-party talks, due to resume in mid-January.

Sinn Féin, the IRA's political wing, has been refused entry, pending the announcement of the restoration of an unequivocal IRA ceasefire.

Retaliation from loyalists, whose ceasefire has largely held since it was declared in October 1994, had seemed inevitable after the shooting of a police officer guarding Mr Nigel Dodds, a Democratic Unionist and former lord mayor of Belfast.

Mr Dodds had been visiting his gravely ill son at the Royal Belfast Hospital next to the Falls Road, a republican stronghold. Though there was

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Goldsmith's cash, Page 5

Bulgarian power struggle grows after PM quits

By Theodor Troev in Sofia and Anthony Robinson in London

The power struggle within Bulgaria's ruling socialist party intensified last night after the surprise resignations of the prime minister and his cabinet at the opening of a special party congress on Saturday.

The move disoriented Mr Zhan Videnov's opponents and left the debt-ridden country without an effective government.

The secretive communist-style congress was called after the prime minister narrowly beat off an earlier challenge three weeks ago.

The socialist party is internally divided between traditional supporters of a powerful centralised state and a minority calling for a more open, social democratic style.

Mr George Pirinski, the US-born former foreign minister and close colleague of Andrey Lukanov, the former prime minister who was assassinated on October 2, is Mr Videnov's leading party opponent.

Mr Videnov, a 37-year-old former communist youth leader, has little public charisma but is skilled in political in-fighting. Several delegates, and opposition spokesmen, interpreted the surprise resignation as a tactical ploy to sow confusion among his poorly organised party challengers.

Creating a power vacuum served to remind the party faithful that without a strong leader the party would not be able to sustain a government which must soon take painful economic decisions.

The socialist government, which swept back to power in December 1994, is widely blamed for failing to stem Bulgaria's economic and financial crisis. It is also under growing pressure from the opposition Union of Democratic Forces.

The UDF is a coalition of anti-socialist groups whose candidate Mr Petar Stoyanov won last month's presidential elections. It is pressing for early general elections.

The UDF says the socialist party is incapable of carrying out reforms which contradict its real beliefs and argues that new elections are needed to create a government with a popular mandate to introduce monetary and other reforms.

Whoever rules Bulgaria next year will face painful decisions on closing loss-making enterprises and banks and privatising profitable state enterprises.

The government is also under pressure to introduce a currency board regime which would tie the hands of the central bank and government by linking domestic money supply to hard currency reserves and peg the Bulgarian lev to the US dollar or the D-Mark.

These are the conditions laid down by the International Monetary Fund in order to qualify for up to $700m in IMF and World Bank loans needed to stave off a second default on the $10bn foreign debt.

An IMF mission which left Sofia on Friday said that it had cleared the technical aspects of the implementation of s currency board, which could be introduced to February. Next year Bulgaria faces foreign deht psyments of $1.3bo while the central bank's current foreign exchange reserves are just over $500m.

CONTENTS

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

Germans ponder the taste of Xmas

Biotechnology could bring unwelcome change to seasonal snack, reports Frederick Stüdemann

If German opponents of biotechnology are to be believed, Christmas may never be the same again. Among the many foods likely in future to contain genetically modified ingredients are Lebkuchen, the rich biscuits which form a central part of the Christmas season in Germany.

One of the ingredients of a typical Lebkuchen is soya. Much of this is imported from the US, where the development of genetically modified soya is most advanced.

In April the European Commission approved the import and sale in the EU of soya modified to be resistant to pesticides. Last week Brussels also cleared the sale of genetically modified maize.

But this seal of approval, which came after scientific tests to determine possible health risks, has done little to convince German consumers or environmental lobbyists of the benefits of biotechnology. Opponents say genetically modified products pose both environmental and health risks.

Public distrust of biotechnology in Germany remains high. According to the Bonn-based Consumer Research Society (GfK), around 75 per cent of Germans remain opposed to genetically modified foods.

A common criticism is that consumers are buying products with unknown properties. This has led to calls for the comprehensive labelling of products that contain genetically modified elements.

This idea has been supported by food retailers and consumer groups, but not by manufacturers or the German economics ministry, which say detailed labelling of every product which contains even a trace of genetically modified matter is excessively bureaucratic and unnecessary.

While the Bonn government and the biotechnology industry have tried to persuade Germans that biotechnology is exactly the type of "future-oriented" business the country needs to preserve its industrial edge and create jobs, opponents led by groups such as Greenpeace have grabbed public attention with blockades and protests.

Ships and trains transporting these crops through Germany have been held up by demonstrators from Greenpeace. In the most recent incident a freight train carrying genetically modified maize bound for the Czech Republic and a ship ferrying genetically modified soya down the Rhine to Switzerland were briefly brought to a halt by protesters.

The actual amount of genetically modified soya in the load was certainly minimal. Only 2 per cent of US soya beans are genetically manipulated. Producers in the US say it is both costly and difficult to separate the two. Greenpeace disputes this.

The commercial consequence of such incidents could be considerable, to judge by the experience of environmental protests in Germany. Last year, for instance, plans by the Shell oil company to sink a disused oil platform at sea resulted in a damaging boycott of the company's petrol stations in Germany.

Mr Gerhard Prante, chief executive of AgrEvo, a biotechnology company jointly owned by Hoechst and Schering, says protests and public antipathy have dented sales and hindered AgrEvo's ability to compete with US companies. He says: "The public has not been properly informed."

He blames hostility from the press and campaigns mounted by lobby groups, but also acknowledges that public fears raised by mad cow disease have also played a part.

Some food manufacturers, such as Nestlé, have decided to declare that for now they will not use genetically modified soya in products sold in Germany. Union Deutsche Lebensmittelwerke, a subsidiary of Unilever, has stopped using soya oil in the production of margarine and switched instead to rape seed and sunflower oil.

Greenpeace activists protest in Brussels last week against plans to allow genetically modified maize to be marketed in the EU Reuter

Ankara hails Iran leader as new-found ally

By John Barham in Ankara

Iran's President Ali Akbar Hashemi Rafsanjani yesterday ended a four-day visit to neighbouring Turkey, where he was feted as a new-found ally by Mr Necmettin Erbakan, Turkey's Islamist prime minister.

Accompanied by an entourage of more than 200 ministers, senior aides and businessmen, Mr Rafsanjani pledged closer political ties in defiance of US warnings. He said US policy was "to prevent strong countries in this region from co-operating. I do not think America can change our co-operation policy with Turkey."

However, Turkey's embattled secularist elite saw Mr Rafsanjani's visit as a provocation. The anti-Islamist military has rejected Mr Erbakan's suggestions of military co-operation with Iran to balance a similar accord with Israel.

Turkish media reported that air force officers refused to allow an Iranian delegation to visit a factory building F-16 fighters under US licence, claiming the facility was "top secret". Iran had said it wanted to buy Spanish Casa transporters built under licence at the same factory.

Officials at the foreign ministry, another bastion of pro-western secularism, said Iran should be held to account for its alleged support for Kurdish rebels who launch attacks into Turkey from bases in western Iran.

In the talks themselves, trade rather than political issues dominated. The two countries aim to double bilateral trade to $2bn in 1997. Mr Erbakan said he looked forward to the day when relations between Iran and Turkey were as strong as they are between France and Germany: "Our goal is for there to be as much merchandise, people, money, aircraft and vehicles going between Turkey and Iran each day as between France and Germany."

The two countries pledged to open up credit lines to each other worth $150m. Turkey said it would renew a contract to import 4.5m tonnes of Iranian crude in April, when the current deal expires.

Turkish and Iranian officials discussed upgrading transport links, opening a new air corridor and rebuilding a railway line between Tabriz in Iran and Van in eastern Turkey. The two countries said they would set up a joint chamber of commerce and work together to protect the environment.

Turkish officials said a six-month study would begin soon to assess the feasibility of a pipeline to carry Iranian oil to western markets through Turkey. Last week Ankara called for international bids to begin building a 1,420km natural gas pipeline between Turkey and Iran. During a visit to Tehran last August, Mr Erbakan signed a $23bn, 23-year deal to import 3bn cubic metres of Iranian gas a year.

SPD falls in behind Kohl on single currency

By Peter Norman in Bonn

Germany's Social Democratic party, which this year dabbled with Euroscepticism, has decided to back the European single currency in the 1998 general election rather than use it as an issue against Chancellor Helmut Kohl.

Mr Günter Verheugen, the SPD's chief foreign policy spokesman in the Bundestag, said Germany's main opposition party would be on the same side as the Bonn coalition in supporting the euro, although it would adopt a different approach over interpretation of the Maastricht Treaty convergence criteria.

"We will argue that membership of the economic and monetary union should be decided through an interpretation of the criteria that conforms with the treaty. Here we differ with the government, which is seeking a strict interpretation," he said. Referring to the protocol that limits the government deficit of Emu members to 3 per cent of GDP, Mr Verheugen said it would be "absurd" to let Emu collapse if a country had a deficit of 3.1 per cent.

Mr Verheugen said his remarks, made at a meeting with foreign correspondents in Bonn, were a signal that "the SPD is moving out of isolation on the European Union". He said the SPD could have stood aside in the hope of letting the single currency fail and damage Mr Kohl. But such a stance would have been unworthy because the SPD voted to ratify the Maastricht Treaty and supported the euro for political reasons.

Mr Verheugen's comments could mark the end of a year of ambiguity and uncertainty over Europe in the SPD. Only 10 months ago, the party appeared split over the euro as the SPD in affluent Baden-Württemberg based part of its campaign in a state election on opposition to the single currency.

Some party members now appear anxious to outshine Mr Kohl in their enthusiasm for EU integration. Together with Ms Heide Wieczorek-Zeul, the SPD's EU spokeswoman, Mr Verheugen last week unveiled an internal discussion document calling for the development of "integrated European defence forces". The two politicians also urged greater powers for the European Commission over foreign policy and suggested: "The Commission should be developed further in the direction of a European government."

Emu's heartland, Page 15

Rexrodt to produce service sector jobs plan

By Peter Norman in Bonn

The German government, faced with record unemployment, intends to strengthen the role of services as a provider of jobs.

Mr Günter Rexrodt, the Bonn economics minister, announced that he would produce a service sector "action plan" in the spring in addition to existing government efforts to reform the German economy and boost employment.

He warned, however, that employment would continue to contract in the short term and that Germany's jobless total would "substantially" exceed 4m this winter despite a quickening of economic growth from around 1.5 per cent this year to a forecast of 2.5 per cent in 1997.

The minister identified several economic policy priorities where Germany needed to make progress in the year ahead. Topping the list were preparations for reform of the income tax and social security systems with the aim of reducing the national tax burden by a net DM30bn ($19.3bn) a year, and bringing pension contributions paid by employers and employees back below 20 per cent of gross salaries from 20.3 per cent set for 1997.

He said the government must take steps to ease access to risk capital for new businesses and small and medium-sized companies, improve conditions for research and development, increase competition through a revision of Germany's cartel laws and deregulation, and refocus state aids in the former communist eastern Germany. From 1998, such aids should be concentrated on problem areas.

Mr Rexrodt also promised more privatisation. Existing plans for the sale of government holdings would be expanded to include some privatisation of infrastructure such as airports, harbours and roads.

The sale of the government's 36 per cent stake in Deutsche Lufthansa, the German airline, is one privatisation project to have made progress in recent days. The finance ministry disclosed that it had "parked" the holding with the state-owned bank, Kreditanstalt für Wiederaufbau, pending passage of a law to allow the sales of the airline stake. As a result of this manoeuvre, Mr Theo Waigel, the finance minister, has added DM2.1bn to privatisation proceeds for this year.

London urges hard EU line on leghold traps

Gummer pushes Brussels to risk trade dispute with Canada and US on 'inhumane' trapping

By Leyla Boulton and Caroline Southey

Mr John Gummer, the UK environment secretary, is pushing the European Union to risk a bitter New Year's trade dispute with Canada and the US over fur pelts by challenging a compromise deal on banning the use of leghold traps.

The EU is deeply divided on the issue, which has pitted those concerned with environmental issues against those keen to secure a deal on banning "inhumane" trapping standards so as to avoid a trade war.

The EU is committed to blocking fur imports unless a deal on banning the use of leghold traps is struck by the end of March, a move the US and Canada have vowed to challenge in the World Trade Organisation. Together they export 70 per cent of their $1.5bn of fur exports to the EU.

The split deepened last week when the European Commission rejected a call from EU environment ministers to scrap a compromise deal negotiated by Commission officials with Canada and Russia allowing fur producers to continue to sell to the EU pelts caught with steel-jawed traps lined with rubber after a four-year phase-out of steel jaws. The Commission agreed instead to stand by the deal and to offer further compromises in a bid to secure a deal with the US.

In a letter to Ms Ritt Bjerregaard, environment commissioner, Mr Gummer expressed "serious concern" that the EU's executive body was acting "in a way which is inconsistent" with its instructions from EU member states. The letter, sent to Brussels late on Friday and copied to the 14 other EU environment ministers, seeks to stiffen the EU's backbone in insisting on banning the import from March 31 1997 of all furs caught with leghold traps.

Britain, along with the Netherlands and Sweden, has been a leading proponent of a ban on the use of the traps. The ban is aimed at stopping the protracted suffering of animals caught in steel devices condemned as inhumane by animal rights activists, the European Parliament and Council of Ministers.

The three member states secured the backing of the other EU environment ministers on December 9 to reject the terms of the compromise deal and to ask the Commission to prepare by the end of the year regulations necessary to implement the import ban. At the same time they gave the Commission, aided by the threat of an imminent trade ban, a mandate to continue negotiating a more acceptable compromise.

Ms Bjerregaard failed to win support for this view in the Commission, which instead swung behind the case put by Sir Leon Brittan, the EU's chief trade negotiator, that the compromise deal should stand and that the EU should offer further concessions to Washington.

A senior UK official said the Council had "told the Commission this is not an acceptable deal but the Commission has said 'you and your animal lovers can go stuff yourselves'."

"This is a head-on collision between the Commission and the Council," he added.

But, the official said, the Commission had "chosen the worst possible ground" for a confrontation because governments were unlikely to defend a deal fiercely opposed by Europe's powerful animal welfare lobby. "This is a serious miscalculation."

The Commission's move – described by the UK official as "the behaviour of arbitrary unelected officials" – also cut the ground from underneath the feet of pro-European UK ministers such as Mr Gummer.

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Dassault and Aérospatiale weigh up bid for Thomson

By David Buchan in Paris

A new front was opened in the atruggle within the French armaments industry for eventual control of state-controlled Thomson-CSF yesterday with an attack by the Lagardère group ou reported plans by the Dassault and Aérospatiale jet makers to form a rival consortium to bid for Thomson.

According to yesterday's Le Monde, Dassault and Aérospatiale, which are themselves negotiating a merger of their aircraft businesses, have indicated an interest in bidding for Thomson-CSF when the terms for the latter's privatisation are announced next month.

Tha two aircraft companies are said to be examining the idea of joining forces with Alcatel, the private sector telecommunications group which was Lsgardère's rival in the government'e aborted first attempt to eell off Thomson. The French state already owns all of Aérospatiale and has a large minority stake in Dassault. But if these latter two came in as Alcatel's junior partners, then the operation could conceivably count as a privatisation.

The heads of Aérospatiale and Dassault have recently commented on the "industrial logic" of a link with Thomson-CSF which makes radars and missiles, and in response to press reports, Aérospatiale repeated this over the weekend, but said it would be guided by its state shareholder.

In that context, Le Monde quoted a defence official as saying tbat Tbomson's delayed privatisation and the US' defence sector'e accelerated restructuring had led the ministry to reflect on a faster strategy for France. Instead of step-by-step mergers hetween missile and aircraft companies separately and only later joining missile to aircraft makers, it might now be best to move to a final combination of joint aircraft-missile groups like Lockheed Martin in the US.

Reacting sharply to this notion, Mr Noël Forgeard, head of Lagardère's Matra defence division, said the creation of a bigger defence electronics and missile group in France was not "a stage that could be simply skipped", but was "an end in itself" which a Lagardère purchase of Thomson-CSF would best achieve.

EUROPEAN NEWS DIGEST

Greek farmers end protest

Greek farmers yesterday ended a 24-day protest against the Socialist government's tight economic policy by removing tractor barricades across the main north-south highway in Thessaly, the cotton-growing region where the blockade started.

The farmers failed to win any concessions on tax breaks or crop subsidies from the government, but are still hoping for a partial rescheduling of the Dr1,000bn ($4bn) debt they owe to the state-owned Agricultural Bank. Farmers from Macedonia and Thrace, who lifted blockades last week, are today expected to have talks with Mr Costas Simitis, the prime minister. Greek seamen on Saturday suspended a strike that had closed ports for five days. They were protesting against the abolition of tax allowances for ships' crews in next year's hudget. The protests were abandoned when it became clear parliament would approve a restrictive budget for 1997 without making major changes. *Kerin Hope, Athens*

Danes in coalition reshuffle

Mr Poul Nyrup Rasmussen, Denmark's prime minister, will spend the Christmas and new year break planning a reshuffle of his minority coalition government which will be reduced from three to two parties after the decision on Friday by the Centre Democrats to withdraw from government.

This leaves Mr Nyrup Rasmussen's Social Democratic party and the small Radical Liberal party to soldier on, although the two parties together command only 70 of the 179 seats in the Folketing.

Mrs Mimi Jakobsen, industry minister and leader of the Centre Democrats, said the five members of her party will continue to support the government from the backbenches. Mrs Jakobsen said the Centre Democrats had decided to withdraw because the government was unable to obtain a majority for the 1997 Finance Act, which became law last week, without making a deal with the two leftwing parties. *Hilary Barnes, Copenhagen*

■ An opinion poll published in the Berlingske Tidende newspaper yesterday shows a rise in Danish support for economic and monetary union, with 46 per cent in favour of dropping Denmark's opt-ont compared with 33 per cent two years ago. *Reuter, Copenhagen*

Austria bank sale faces delay

Mr Viktor Klima, Austria'e finance minister, said he was prepared to delay the sale of Creditanstalt, the second biggest bank, until next year.

Mr Klima, a Social Democrat, is under pressure to halt a damaging row that could topple the coalition. He said: "If possible we will decide this month – without endangering the coalition. But if there is a reason not to decide before year-end, then we won't do it." In an interview with Profil magazine, published today, he said: "I am ready to do a lot of things, including reopen the bidding so that people can alter their bids without drawing in new partners." He had insisted he wanted to complete Europe's longest running privatisation by the end of 1996, closing what has become an embarrassing chapter for Austria.

Mr Klima, the third finance minister to attempt the salc in the past six years, appeared to be on track to meet his target until Bank Austria, the market leader, entered the fray shortly before the December 16 deadline for bids. "Socialist" Bank Austria's offer for conservative stronghold Creditanstalt split the coalition of Social Democrats and People'a party, raising tha prospect of a repeat of last year's snap elections. *Reuter, Vienno*

Italy passes austerity budget

The Italian parliament yesterday approved the centre-left government's 1997 austerity budget, drawn up in an effort to prepare for the launch of the single European currency.

The package, which aims to slice L62,500bn ($41bn) from next year's projected deficit, was passed at a rare Sunday sitting of the lower bouse of parliament by 316 votes to two, with two abstentions.

The centre-right Freedom Alliance, headed by Mr Silvio Berlusconi, and the secessionist Northern League party boycotted the vote in a final act of defiance against the contested package.

■ A group of 11 parliamentarians from the lower house broke away from the Italian Renewal party on Saturday, leaving the party with just 14 members in the 630-seat chamber of deputies. *Reuter, Rome*

$570m loan for Qatar gas project

By Robin Allen in Doha, Qatar

After more than two years of talks, Qatar Liquefied Gas Company (Qatargas) has signed a 12-year $570m loan with four foreign banks to fund part of its "upstream" construction facilities.

Qatargas is one of three huge natural gas export schemes for Qatar's North Field, with much of the gas to be shipped to Japan.

The loan will cover much of the cost of "upstream" construction – including the cost of drilling wells, building platforms offshore and piping gas ashore to liquefaction plants.

Qatar's North Field is reputedly the world's largest single gas reservoir. Qatargas is the most advanced of the three multi-billion dollar schemes for exploiting it.

Total cost of the Qatargas project comprising upstream construction, liquefaction and shipping – including construction of tankers – is estimated at $6bn-$7bn.

The Qatargas project consists of three "trains", each with its own pipeline, machinery and storage elements, of 2m tonnes per year (tpa) of LNG.

Japan's Chubu Electric Power Company is taking the entire output of the first two "trains".

The first shipment of liquefied natural gas is due to leave for Japan tomorrow.

Shipments of condensate to Japan started last September.

The upstream loan was arranged by France's Crédit Lyonnais and Société Générale, Barclays Bank of the UK, and the Bahrain-based Gulf International Bank.

Five other banks have underwritten the non-recourse facility, so-called because there is no sovereign guarantee.

Collateral is provided from Qatargas's future cash flows.

The Qatargas vice-chairman, Mr Faisal Al-Suweidi, said that the loan – a mix of buyers' credit and commercial debt – would cover 70 per cent of the cost of drilling wells, building offshore platforms and piping vapourised gas onshore to liquefaction plants. Up to now the construction costs had been shared by the equity partners.

Qatargas is owned 65 per cent by the state Qatar General Petroleum Corporation (QGPC) and 10 per cent each by Mobil of the US and France's Total, with the balance shared equally by Japanese trading houses Mitsui and Marubeni.

The precise terms of the upstream loan have not been disclosed.

But like the $2bn "downstream" loan signed last year, the loan for upstream construction carries a two-year grace period, and, according to a QGPC official, "a very attractive rate."

Grace period and 'attractive' rate agreed with foreign banks

The downstream loan was priced on a blend of rates averaging 1 per cent above the London interbank offered rate (Libor).

The Qatargas upstream loan follows last week's successful $1.2bn bond issue for Ras Laffan Liquefied Natural Gas Company (Rasgas), the shareholding structure of which was changed earlier this month to accommodate Japanese interests.

QGPC and Mobil have ceded 7 per cent between them, bringing their equity stake to 66.5 per cent and 26.5 per cent respectively.

The newcomers are Japan's Nissho Iwai with 4 per cent and Itochu Corporation with 3 per cent.

Aerospace merger tests US-EU harmony

Guy de Jonquières and Gerard Baker size up chances of Boeing-McDonnell approval

Boeing's planned takeover of McDonnell Douglas has been widely acclaimed on Wall Street as good for the two companies and their shareholders. But would creation of the world'a biggest aerospaca gronp also benefit competition and, in particular, the interests of the international airline industry?

Anti-trust watchdogs on both sides of the Atlantic will be puzzling hard over these questions in the coming weeks. Their answers, which will be crucial to the deal's fate, will depend on how they tackle some complex regulatory challenges.

The case seems set to break new ground in several ways. Not only are the competitive dynamics of the aerospace industry still not well understood by economists. Sensitive issues of international jurisdiction over mergers and the criteria for judging them are also at stake.

These have been thrown into relief since Mr Karel Van Miert, EU competition commissioner, signalled last week that he wants to probe the deal. The launch of such an investigation, in parallel with scrutiny by US authorities, would be the biggest test yet of transatlantic co-operation on anti-trust enforcement

Since trust-busters in Washington and Brussels formalised their co-operation in the early 1990s, they have worked closely on cases with international ramifications. Although they hava not always reached identical decisions, they have so far avoided serious conflicts.

However, the planned Boeing-McDonnell deal involves special factors. As well as boasting annual defence sales of more than $15bn, the merged group would command three quarters of the world's $50bn-a-year commercial airliner market, with the European Airbus as its only rival.

Some other businesses, such as soft drinks, detergents and baby napkins, are also dominated by two global competitors. But the Boeing-McDonnell merger is unusual, because the companies do almost all their manufacturing in the US and have few assets in Europe.

That means Brussels would be powerless to require that the companies divest activities or modify their operations in the EU as a condition for approving the merger.

"A nightmare" would result if the US and EU reached opposite conclusions, one EU official said. The stakes could be higher still if, as many European observers suspect, the deal enjoys at least tacit support from the Clinton administration.

Competition lawyers say it is also common for companies discreetly to sound out attitudes among anti-trust regulators before announcing a merger – though Washington denies any assurances have been sought or given in this case.

The Pentagon may recommend divestiture to curb any anti-competitive impact of the merger on the defence industry, or could halt the deal altogether, Mr William Perry, the US defence secretary, said at the weekend. "The issue is whether ooe segment of the defence industry is monopolised as e result of it," he said. "And if it is, we can either recommend stopping the merger or we can recommend divestiture of the one segment which is likely to be a problem."

The US has yet to decide whether the Justice Department or the Federal Trade Commission will scrutinise the merger. But whichever anti-trust body is made responsible, experience suggests its approach may differ from that of Brussels.

A key issue is the importance of the improved industrial efficiency which mergers are likely to generate – a point which Boeing and McDonnell are expected to emphasise heavily. US watchdogs tend to accept such claims when backed by convincing evidence, on the grounds that benefits to consumers are likely to outweigh reduced competition.

China has signed a $300m contract to buy 10 Airbus aircraft, AP-DJ reports from Beijing. The contract builds on a pledge made during Premier Li Peng's visit to France in April, when China promised to buy 30 A320s from Airbus Industrie worth $1.5bn.

The first aircraft will be delivered next year with all 10 coming before 2000, according to newspaper reports. China also plans to manufacturer its own 100-seat aircraft.


Van Miert: signalled probe

EU watchdogs also take efficiency gains into account. But they do not regard them as an overriding argument for mergers if there are risks that dominant producers would abuse their market power.

The two sides would also need to agree on the exact market to be scrutinised. Should it, for instance, be defined to cover all commercial aircraft, or just jumbo jets, of which Boeing is the dominant supplier?

On both sides of the Atlantic, authorities will be under pressure from powerful industry lobbies. How far the EU presses its investigation is likely to depend heavily on the attitudes of Airbus, its four partners and their respective governments.

Airbus has said the merger does not pose a competitive threat in civil aircraft. "If Airbus doesn't attack the deal, that might mean it is comfortable with a cosy duopoly," said Mr Jim Venith, a Brussels-based anti-trust specialist with Wilmer, Cutler and Pickering, a US law firm. That could eocourage Brussels to be tougher on the merger.

The Boeing-McDonnell deal also highlights potential conflicts over trans-national merger control which may become increasingly common.

Similar issues were raised by a Brussels ruling earlier this year against a merger of the platinum interests of Gencor of South Africa and Britaio's Lonrho – even though none of the assets involved was in the EU.

EU officials say the ban was necessary to preserve competition in the European market. Anti-trust experts are waiting to see whether Brussels decides to risk Washington's wrath by applying that principle to the Boeing deal.

Publishers and software groups greet new laws for digital age

Welcome for updated rules on copyright

By Frances Williams in Geneva

Publishers, the international music business and software companies have welcomed the adoption of two international treaties that update copyright rules for the digital age.

The treaties, adopted on Friday, extend copyright law to digital transmission of protected works and sound recordings, giving authors, music performers and record companies the right to authorise and require payment for distribution of their work on the Internet and other computer networks.

Once ratified by governments, the pacts are expected to give a huge fillip to the developmeot of the Internet by encouraging copyright owners to put their works on-line.

Up to now, few have done so, put off by uncertainty over their legal rights as well as by the ease with which works can be pirated and transmitted around the world.

Mr Bruce Lehman, head of the US patents office, said that while Internet piracy could not be atamped out altogether, the treaties provided the necessary legal framework for copyright holders to enforce their rights. They also require countries to outlaw devices aimed at circumventing encryption and other techniques to prevent illegal access and copying.

Mr Nicholas Garnett, director-general of the international Federation of the Phooographic Industry (IFPI), said: "These treaties give record companies the basic legal foundation they need to do business in an electronic on-line market that will grow dramatically in the next few years."

IFPI believes on-line services could account for 15 per cent of the international recording industry's total business, now worth $40bn, within five years.

Mr Robert Holleyman of the Business Software Alliance, which represents leading software publishers and computer technology companies including Microsoft, Novell, IBM and Intel, said the adoption of tha pacts was a "win-win" for Internet content providers and users.

Final approval of the treaties came after three weeks of intensive negotiations in Geneva by some 150 member governments of the World Intellectual Property Organiaation, the UN agency responsible for international law on copyrights, patents and other intellectual property rights.

One treaty extands the Berne copyright convention to electronic transmission while the other covers the rights of music performers and producers. Discussion of a controversial third treaty – on protection of databases – has been postponed until next year.

The most difficult issue concerned an attempt to bring "temporary reproduction" within the pacts' scope. The aim was to ensure that copies of copyrighted material that were not downloaded into the user's computer but used (or listened to) on-line would be covered.

But Internet software developers and on-line companies objected that the definition was drawn so widely it could theoretically catch the mere act of browsing or surfing the Net, which involves making temporary computer copies of each site visited. In the end, the offending clause was dropped, leaving it to national courts, as now, to decide whether a use was copyright violation.

Another row, over the rights of film actors, was resolved by agreeing to negotiate a separate pact by the end of 1998.

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NEWS: INTERNATIONAL

Republicans rally to support Gingrich

By Patti Waldmeir in Washington

Senior Republicans yesterday rallied around Mr Newt Gingrich and predicted he would be re-elected as Speaker of the US House of Representatives, in spite of an ethics controversy which prompted Democratic calls for his resignation.

The Republican party mounted a damage limitation operation at the weekend, sending top party leaders to appear on all the televised Sunday morning political talk shows to defend what they called an "error of judgment" by Mr Gingrich.

The Speaker admitted on Saturday that he gave incorrect information to the House ethics committee which has spent two years investigating whether he used tax-exempt funds for political purposes. He insisted that his intention was not to mislead the committee, which found he had not done enough to ensure that a college course he taught complied with laws barring the use of tax-exempt funds for partisan purposes.

"I brought down on the people's house a controversy which will weaken the faith people have in their government," Mr Gingrich said in a statement. It was an extraordinary turnaround for the controversial Republican, who has insisted throughout the inquiry that it was no more than a political vendetta against him.

The committee must now vote on whether to impose penalties on him for infringing House rules. It could censure him, requiring him to step down, or impose a lesser penalty.

Mr Dick Armey, House majority leader, predicted yesterday that Mr Gingrich would be re-elected when his party's caucus votes for a Speaker on January 7. Mr Armey promised a unanimous vote of fellow Republicans, and said he had "not one bit of doubt" of Mr Gingrich's re-election.

Senior Democrats, delighted to see the spotlight of ethical controversy turned on their opponents and away from the simmering scandal over Democratic campaign finance, called on Mr Gingrich to resign. "Put your actions where your words are – step down," said Mr Mario Cuomo, former New York governor. Mr David Bonior, House minority leader, insisted the Speaker was guilty of "tax fraud".

Scandal over Mr Gingrich's transgressions seems likely to prove short-lived. But the controversy over whether the White House doled out political favours in exchange for campaign contributions is certain to continue well into the new Congress, as the Justice Department pursues its investigation into illegal contributions from foreigners, and as US newspapers continue to probe links between senior Asian businessmen and the White House.

Dateline Washington, Page 6

FDA reprieved but not left in peace

Patti Waldmeir reports on post-election reform of the US Food and Drug Administration

The election is over, the cabinet complete. The "vital centre" reigns. Grand schemes for social engineering – health care reform, the Contract with America – are out of fashion. On both left and right, the revolutionaries are in exile.

But even those reprieved by the revolution – like the US Food and Drug Administration (FDA), one of the government bureaucracies Republicans most love to hate – may not find life so peaceful at the vital centre. Republican legislators remain intent on redefining the relations between government and the governed – piecemeal, if not wholesale. Senior Republicans may have abandoned more radical plans to abolish or dismember the FDA, but they still vow to reform it.

Congressman Thomas Bliley, the Virginia Republican who chairs the House commerce committee, fired this firm shot across the bows of the FDA in a recent speech: "Legislative reform of the FDA is still very much our goal, and legislative reform will happen this Congress," he warned. "As I have said time and time again, it breaks my heart to see American citizens having to travel overseas to get the drugs and medical devices they need to stay alive."

He was reviving an old argument

Kessler: tobacco target

about the role of the FDA: critics say it is slow, bureaucratic and authoritarian; that its aversion to risk stifles innovation and needlessly delays introduction of new drugs and medical devices.

But if critics see the FDA as a symbol of the "nanny state", supporters view it as a valued public protector – created to defend them from Thalidomide and the Dalkon shield. The debate goes to the very heart of the larger argument about the role of government in 21st century American society.

That battle was fought to an inconclusive end in the last Congress, which failed in the final weeks to pass ambitious FDA reform legislation. The bills under consideration would have forced the FDA to hand much of its evaluation work to private companies; set tighter deadlines for drug and device approvals; required fewer clinical trials and less paperwork; and loosened curbs on promotion of unapproved uses of drugs and devices already on the market.

But as the election loomed, "the clock ran out on FDA reform," says one Congressional aide. Senate staffers now fault what they say was a misguided "Big Bang" approach to reform: the legislation fell victim to its own size and complexity, and to infighting between various pro-reform factions.

Some minor legislative reforms were achieved even so: but Republicans say their greatest achievement was not legislative but political. "Even though we weren't able to make laws, we sure did make a difference," Congressman Bliley says, claiming credit for a sharp improvement in FDA performance (in fiscal 1996, the FDA says it approved almost twice as many drugs as in years past, while the median approval time has almost halved since the late 1980s).

Mr Bliley attributed this to congressional pressure, which led to a "complete change in attitude at the FDA", he said. But without "a cop on the beat" of the agency it would regress, he argued, vowing to keep the legislative pressure in place.

Congressional aides say it is too soon to tell what that will mean. Most are betting that limited, targeted reforms will pass this Congress: regulations governing medical device approvals may be relaxed, and private companies increasingly used to approve such devices; Congress may try to encourage the FDA to agree to harmonised standards with European and Japanese regulators to speed cross-border approvals. Much work has already been done toward agreeing common standards, but administration officials and lawmakers insist the final decision on marketing drugs in the US must remain with US authorities.

Much will depend on the course of hearings to confirm a new commissioner to replace Dr David Kessler, the controversial FDA chief who recently resigned. Dr Kessler became a focus for anti-regulatory feeling in Congress; if the White House chooses another activist to succeed him, a bitter confirmation battle could destroy all prospect of bipartisan FDA reform.

Confirmation hearings are not likely before early spring. Once they begin, all the old battles will be fought again, over streamlining the FDA, but also over the even more contentious issue of tobacco regulation. The FDA took the first step toward that goal under Dr Kessler, when it announced measures to curb teenage smoking by restricting advertising targeted at young people (a measure now being challenged in the courts).

Critics believe the FDA wants a total ban on tobacco, though administration officials deny this. Both sides will be watching closely for signs of the new nominee's intentions – not least Mr Bliley, who represents tobacco-producing Virginia, and has been criticised for pursuing FDA reform just as an antidote to tobacco regulation.

Perhaps, in the words of one administration official, legislators may simply decide in the end to "declare victory and go home", allowing the FDA to pursue its own quiet reforms. Maybe the Republicans will try to launch a piecemeal revolution. Either way, FDA reform could prove an important test of the self-proclaimed co-operative Congress.

INTERNATIONAL NEWS DIGEST

Cuba counters Helms-Burton

Cuba has prepared defensive legislation rejecting claims made under the US Helms-Burton law and strengthening legal protection for existing and future overseas investors.

The Cuban draft law was approved by commissions of the National Assembly yesterday and will be ratified by the Cuban legislature tomorrow.

Under the proposed Cuban legislation, all claims made under the Helms-Burton law, whether by companies or individuals, whatever their nationality, will be considered null and void.

The Cuban draft law does, however, re-state the Cuban government's willingness to negotiate fair compensation for US citizens whose properties were nationalised following the 1959 Cuban revolution, provided they do not use the Helms-Burton law to press their claims. This could form part of a wider political negotiation between the governments of Cuba and the US.

The Cuban draft law also declares illegal any kind of assistance given to the US government in its enforcement of the Helms-Burton law. *Pascal Fletcher, Havana*

Indian party poll postponed

Elections for a new parliamentary leader for India's Congress party have been postponed from today until January 3, amid intense backroom manoeuvring for the post.

Speculation has been rife over a successor to Mr P.V. Narasimha Rao, the former prime minister, who was forced to resign the party leadership last week following its heavy defeat in national elections last May.

The three clear candidates who have emerged are Mr Sitaram Kesri, the 76-year-old Congress party president, who led the campaign to oust Mr Rao; Mr Sharad Pawar, the powerful former chief minister of Maharashtra state and Mr Rajesh Pilot, an influential member of a younger generation of Congress officials and a former environment minister. Of these, Mr Kesri appears to be the strongest. *Tony Tassell, Bombay*

See Survey: Madhya Pradesh state, Pages 25-27

US in Hebron talks bid

Mr Dennis Ross, the US Middle East peace envoy, met Israeli and Palestinian leaders at the weekend in an attempt to jump-start stalled negotiations over the Israeli redeployment from the West Bank town of Hebron.

US officials have expressed concern that a breakdown in confidence between Israeli and Palestinian negotiators was preventing the two sides from clinching a deal on Hebron. Mr Ross hoped to see "what could be done to energise the process". Weekend tension in Hebron highlighted the urgency of a deal, as clashes erupted between Jewish settlers and Palestinians and firebombs were thrown at settler homes. About 400 Jewish settlers live among 120,000 Palestinians in Hebron.

Palestinian negotiators want assurance that Israel will fulfil its commitments, including further Israeli redeployment from the West Bank and release of prisoners. Mr Yassir Arafat, the Palestinian leader, said his initial meeting with Mr Ross was "constructive and fruitful". *Avi Machlis, Jerusalem*

Atom-smasher plan advanced

Plans to construct the world's biggest atom-smasher at the European Particle Physics Laboratory, Cern, have been advanced by three years, with completion now planned in 2005. The decision was taken by Cern's governing council on Friday after hearing that Japan, the US, Russia, India and Canada were ready to make substantial contributions to the SFr2.6bn ($1.95bn) cost of the Large Hadron Collider (LHC).

Budget cuts by Cern's 19 European members, led by Germany, had threatened the future of the LHC, which aims to uncover the secrets of the creation of the universe. By firing proton beams around a 27km tunnel, smashing them together at close to the speed of light to create sub-atomic debris, the super-collider will recreate conditions a millionth of a millionth of a second after the so-called "Big Bang".

The cuts, of 7.5 per cent next year and rising to 9.3 per cent from 2001, will fall instead on other spending programmes. *Frances Williams, Geneva*

Ramos back in hospital

Philippine President Fidel Ramos was yesterday admitted to hospital for the second time in 10 days for follow-up checks after a previous confinement for a throat infection. The 68-year-old president cancelled some of his scheduled appointments for the day.

Ramos, who is known to spend up to 18 hours a day in official duties, was previously admitted to the hospital on December 12, complaining of pains in his joints. He was released three days later after treatment for what doctors said was a throat infection. *Reuter, Manila*

Hanoi orders banks to lend to its projects

By Jeremy Grant in Hanoi

Vietnam has ordered the country's banks to set aside $300m in loans for government projects in an unusual move which suggests divisions among policymakers over banking reform.

It has also sparked fears the communist-ruled country is in danger of breaching domestic credit extension limits agreed with the International Monetary Fund.

The policy is contained in a confidential central bank directive that instructs banks to extend medium- and long-term loans for use in $450m worth of projects, some earmarked by the government and others to be picked by the banks themselves.

Each bank should "immediately" tap its short-term funds – up to a limit of 20 per cent of the total of such funds – for loans of up to five years' maturity to be extended in this quarter.

All banks were "obliged to implement strictly this policy," the directive said. Any bank facing "temporary liquidity difficulties" that might result would be bailed out by the central bank.

Bankers and western economists are concerned because Hanoi officially broke with Soviet, command-style banking behaviour in the late 1980s, when it spun off the country's four largest state-run banks from the central bank. That, in theory, gave them the right to make their own lending decisions. However the directive indicates that, in practice, this is not the case.

Some suspect powerful interests in the ruling communist party still see the banking system as a limitless source of funds for projects and are resisting moves to liberalise the sector. "My view is that the party is still trying to tell the banking system what to do and what not to do," said a western economist.

The central bank is understood to be unhappy with the directive but was forced to issue it by party superiors, sources say. It has apparently issued two policy statements since the directive appeared emphasising its desire to see local banks stick to quarterly IMF credit ceilings, one source said: "It's a government decision that they're required to implement and they're doing what they have to do."

The banks have been unable to provide financing for the projects as they are limited by their short-term deposit bases, itself a reflection of low popular confidence in the banking system. "They're trying to get it [funding] by administrative means because the market's not supplying it," said a second western economist.

Foreign bankers worry that banks obeying the directive will expose themselves to interest rate fluctuations. "They have no real way to hedge their positions to support their medium-term obligations," said one.

Lima siege tests Japan's resolve

The Peru hostage crisis is testing Japan's ability to handle international incidents just as the new government is stepping up its campaign to be admitted to permanent membership of the world's ultimate crisis unit, the United Nations Security Council.

It would be premature to judge how Tokyo is managing its part in the response to leftwing guerrillas who are holding more than 300 people hostage in the Japanese ambassadors' residence in Lima.

But the Japanese government was over the weekend letting Mr Alberto Fujimori, the Peruvian president, take a tough line against the guerrillas' demands, an apparent break with the tendency to cave in, which the Japanese authorities have shown in their limited experience of terrorist threats.

Japanese public opinion, judging by press coverage of the crisis, is showing its habitual acute sensitivity to how their government's stance will go down abroad.

"The worst case scenario for the Japanese government is that Japan would face world-wide criticism" for giving in to the guerrillas' demands, warned the Yomiuri Shimbun daily newspaper, a supporter of the ruling Liberal Democratic party. It reminded readers of the opprobrium earned by the government for allowing the hijackers of a Japan Airlines passenger aircraft in Bangladesh to go free with a ransom in 1977.

The Mainichi Shimbun recalled a similar instance, when the government gave in to the demands of Palestinian terrorists who invaded the Japanese embassy in Kuwait in 1974 and supplied an aircraft in which they escaped.

But whatever the government's wishes, it was "questionable" whether Mr Yukihiko Ikeda, the foreign minister, would be able to exert much authority, because of his late arrival at the scene, according to Mr Shuho Tanaka, the diplomat who negotiated the Kuwaiti hostages' release, and who was interviewed over the weekend by the Mainichi.

A Kyodo news agency report from Lima, claiming that the Peruvian government had cut off power and water to the residence without consulting Mr Ikeda, appeared to support Mr Tanaka's fears.

Other Japanese press comment urged, somewhat banally, extreme caution. "A desperate, go-for-broke attempt to rescue the hostages... could prove a disaster," said the Asahi Shimbun, a liberal daily.

In spite of the worst Japanese press fears of a cave-in followed by international condemnation, the government's negotiators in Lima appeared to be following the hard line espoused by the Peruvian and US governments.

Initially, it looked as if the Japanese government was going to be out of line with its most important allies in this crisis, when Mr Seiroku Kajiyama, the government spokesman let slip in an unguarded moment on Friday that there was "a considerable difference between the views of Japan and Peru". But the following day, a foreign ministry official stressed that the Tokyo government had "complete trust" in Mr Fujimori and that it was up to the Peruvian side to decide how to respond.

A bigger test of the Tokyo government's nerve may yet be to come.

If the Peruvian authorities were to decide to use force on what is technically Japanese territory, Japanese government approval would, according to international convention, be required. It would be the toughest foreign policy decision yet faced by the government of Mr Ryutaro Hashimoto.

William Dawkins

China's HK move criticised by Patten and US

By John Ridding in Hong Kong

China's move to establish a new legislature for Hong Kong has prompted a heated exchange with Britain and criticism from the US, which urged new elections in the territory as soon as possible.

The weekend appointment of the new body – which will replace Hong Kong's elected Legislative Council when the territory returns to China next July 1 – was condemned as a "bizarre farce" by Mr Chris Patten, Hong Kong governor. The provisional legislature – dominated by pro-China politicians and members of a Beijing-backed electoral college – was described as "unjustified and unnecessary" by the US State Department.

Rejecting international opposition, Mr Qian Qichen, China's foreign minister, blamed Britain for the failure to agree on a legislature to span the handover. He said Britain "lacked the courage to face reality" concerning the new legislature and dismissed its challenge to take the issue to the International Court of Justice.

The exchange and the prospect of parallel legislatures have prompted fears of confusion ahead of the handover. Although the row is not expected to derail the transition process, the new body could trigger disputes and pose a dilemma for senior civil servants who have expressed opposition to the provisional legislature and who want to retain their posts.

Claiming the new body would assist a stable transition, Mr Qian said that it would not interfere with Hong Kong's governance before the handover and that laws it enacted would not take effect before July 1. The new body is to exist for up to one year and will make arrangements for electing a replacement.

However, overlapping membership threatens to undermine the existing Legislative Council, while local pro-democracy politicians warn the provisional legislature will fail to establish credibility.

More than half the existing legislators – 33 out of 60 – will sit on the new body. All but nine of the 60 members of the provisional legislature are members of the Selection Committee, the 400-member Beijing-backed electoral college which formed the new legislature through a secret ballot. Ten members of the provisional body had been defeated in attempts to win seats in last year's elections.

The largest groups in the new body are the pro-China Democratic Alliance for the Betterment of Hong Kong and the pro-business Liberal party, both of which have 10 members. There are none from the Democratic party, the largest group in the Legislative Council, which boycotted the process.

Charges that the provisional body is illegal were rejected by Mr Tung Chee-hwa, the shipping tycoon who will become the territory's post-colonial governor.

Strong US and German growth ☐ Japan held back ☐ Rapid rise in nervous system medicines

International drug sales show 7% increase

By Daniel Green

Pharmaceuticals sales in the world's top 10 markets rose 7 per cent in the first 10 months of the year, largely driven by strong US growth. The increase makes it increasingly likely that 1996 will have been one of the best years of the decade for the drugs industry.

Total sales rose to $117.4bn, according to IMS International, the specialist drugs industry market researchers.

The US was the biggest market with sales of $48bn, a rise of 8 per cent in local currency terms. The gain for the first nine months of the year was 7 per cent.

World pharmacy drug purchases January-October 1996 ($m)*

	US	Japan	Germany	France	Italy	UK	Spain	Canada	Belgium	Neths
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	582	428	285
Alimentary/Metabolism	7,890	3,906	2,310	1,896	1,235	1,100	705	479	244	361
Cardiovascular	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	522	376	205
Anti-infectives	4,589	2,154	1,064	1,419	956	358	497	213	200	100
Respiratory	[illegible]	[illegible]	[illegible]	[illegible]	660	322	446	300	175	280
Blood Agents	2,479	1,816	651	803	432	148	252	227	83	102
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	364	612	155	174	78	95
Others	9,086	6,363	2,914	1,906	1,559	1,053	795	677	283	268
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
% Change**	8	3	8	1	13	11	10	4	7	1

Source: IMS International. *Non-hospital market only **Increase excluding currencies

Germany, the third biggest market, also grew by 8 per cent, to $14bn. But growth was held back by Japan, where sales rose 3 per cent to 19.2bn.

At the start of this year, Japan had a round of compulsory price cuts for pharmaceuticals. Sales there have also been depressed by last winter's unusually mild influenza season.

Italy was the fastest growing country monitored with sales rising 13 per cent to $7.5bn. The figures represent a sharp recovery from two years of low or negative growth as a result of government cost-control measures.

The UK also grew quickly, in spite of being a country with a relatively low drug expenditure per head. Sales grew 11 per cent to $5.6bn.

By medical area, nervous system drugs grew quickly, with sales up 13 per cent to $16.5bn. The sector includes Prozac, the best-selling anti-depressant made by Eli Lilly of the US.

Only sales of blood agents, which includes a new generation of medicines that reduce levels of cholesterol in the blood, grew more quickly. Sales rose 15 per cent to $7bn.

By contrast, heart disease drugs grew by just 3 per cent, to $20.5bn. The sector remains the largest in financial terms, but growth has been slowed by the expiry of patents on leading products such as Capoten, made by Bristol-Myers Squibb of the US.

Heart drugs could soon be overtaken by digestive system drugs, where sales grew 8 per cent to $20.1bn. The sector is being led by Losec, the anti-ulcer drug from Sweden's Astra that is in the process of dislodging Zantac, an older competitor made by Glaxo Wellcome of the UK, from the position of world's best-selling medicine.

Entrepreneur gives Ulster Unionists $400,000 to fight election on Eurosceptic ticket

Goldsmith's cash splits N Ireland party

By John Kampfner, Chief Political Correspondent

Sir James Goldsmith, the Anglo-French entrepreneur and founder in the UK of the Referendum party, is to donate more than £250,000 ($417,500) to the Ulster Unionist party to fight next year's general election on a Eurosceptic ticket.

The deal with Sir James, who founded his party solely to campaign for a UK referendum on European economic and monetary union, has infuriated many of the Ulster Unionist party's nine MPs in the House of Commons. Their party is the biggest pro-British party in Northern Ireland.

Mr John Taylor, Ulster Unionist deputy leader and European spokesman, last night denounced his party's alliance with Sir James, which will be announced formally in Northern Ireland today.

The agreement was reached during a meeting between Sir James and Mr David Trimble, Ulster Unionist leader, at the start of this month, and was put briefly to party officers on December 13.

Mr Trimbla, who will make today's announcement, has been anxious to demonstrate his party's independence from the governing Conservative party at Westminster, especially over the "wait and see" approach to monetary union of Mr John Major, the UK prime minister.

The joint Unionist/Referendum party statement will say: "The Referendum party will support the Ulster Unionist campaign in Northern Ireland on the specific issue of a referendum and will allocate an appropriate amount from its budget for this purpose."

Sir James has earmarked £20m for his campaign to put up election candidates throughout the UK against MPs who do not declare themselves for a broad referendum on integration in the European Union. He has told Mr Trimble that his party will not campaign in Northern Ireland and will give the same amount of money, proportionate to the population, as to the rest of the UK.

However, Mr Teylor said the unionists should resist "temptations". The Referendum party, he said, was "a one-issue party, here today, gone tomorrow".

The deal is part of a broader strategy which includes Mr Jim Nicholson, a Northern Ireland member of the European Parliament, switching from the bloc to which UK Conservatives belong, into Sir James's Europe of Nations grouping. Sir James represents a French district in the Parliament.

But Mr Taylor said changes at the European Parliament "will have no impact on the role of the Ulster Unionist parliamentary party at Westminster".

Mr Taylor's views are understood to be shared by Mr Ken Maginnis, the unionists' security spokesman.

His remarks were seen as a warning to Mr Trimble – who is closely connected to a circle that sees Brussels and Dublin as two forces contributing to undermining the UK – that Ulster Unionists will not tolerate a formal alignment.

Lift truck demand 'to stay high'

By Peter Marsh

Growing efforts to implement just-in-time production techniques and the need for increasingly rapid turnround of stocks in warehouses and factories will keep demand for lift trucks at high levels during 1997, say industry forecasts.

The British Industrial Truck Association, which represents the main industry players in the UK lift truck sector, is projecting lift truck sales in the UK in 1997 will be 23,000 units, about the same level as in the past two years.

The 69,000 projected figure for sales in the 1995-97 period is 56 per cent up on the equivalent figure for the three preceding years, according to the association's data. The main companies with UK factories are Linde and Jungheinrich (owner of the UK-based Boss group) and Nacco of the US.

The truck trend underlines the general confidence in much of manufacturing industry about reasonable levels of output growth over the next few years.

Other big users of lift trucks – total sales of which in the UK are about £1bn ($1.7bn) a year – include distribution companies and supermarket chains which use them for shifting goods rapidly during transit.

The strong demand for lift trucks, which followed sales of 18,000 units in 1994 and just 14,000 in 1993, is good news for the main UK-based producers.

About half of the lift trucks purchased in the UK this year are Britain-made, according to industry estimates.

Other lift truck producers which have a significant position in the UK market but with no local production bases include Komatsu, Toyota and Nissan of Japan. Increasingly in Britain, truck producers sell their trucks to leasing groups.

Mr George Coates, director of the British Industrial Truck Association, said one reason for the continuing strong demand for lift trucks was the growing priority companies were giving to getting right the logistics part of their operations, with switching goods quickly between warehouse, factories and customers being increasingly important.

● More than twice as many employers in the west of England have had hard-to-fill job vacancies this year than in 1995, Roland Adburgham writes.

The vacancies most difficult to fill have been for motor mechanics, truck drivers, technical salespeople, clerks, care assistants and cleaners. But one in six high-tech companies also reported problems in recruiting staff, particularly graduates and those with relevant skills.

Westec, the training and enterprise council for the former county of Avon, reports in its annual employer survey that, of those companies which had been trying to recruit labour, 40 per cent had problems in filling one or more vacancies. Although unemployment in the region was 31,000, the report says the labour market had tightened considerably.

High platform

UK sales of lift trucks (units '000)

Source: British Industrial Truck Association

Corporate investors boost Lloyd's capital share

By Christopher Adams, Insurance Correspondent

Corporate investors have increased their share of capital supply at the Lloyd's of London insurance market to 44 per cent next year from 30 per cent in 1996.

Corporate groups have limited liability and some have been buying stakes in the agencies which manage insurance syndicates. This provides agents with some permanent capital and gives corporate investors a more active role in underwriting.

This has led to predictions that Lloyd's may eventually consist of capitalised insurance firms in which investors buy shares.

But the conversion of Names – individuals whose assets have traditionally supported the market – to limited liability is likely to take several years. Less than 1 per cent of Lloyd's £10.3bn capacity next year, the amount of business the market can write, will be provided by Names making the switch from unlimited liability.

For 1996, that share could rise to between £300m and £500m, according to Mr Christopher Moore, senior adviser to the chairman of Lloyd's.

One reason for the Names' reluctance is that limited liability can be a more expensive way to invest. For example, Scottish Limited Partnerships, one of the three types of scheme for 1997, carry a higher cost than sole trading with unlimited liability.

Lloyd's of London expects an increasing number of Names to switch from unlimited to limited liability trading as a wider range of conversion schemes spring up. But it may have to make limited liability more attractive, as most Names have shown little appetite for conversion. Lloyd's also plans next year to make improvements by simplifying the application procedure, which could cut costs.

But there are other issues. With unlimited liability Names are able to offset previous losses against future profits.

Many of them were badly hit during five years of disastrous trading up to 1992 and may prefer for the next few years to take advantage of this aspect of their status. In addition, the relatively low gearing of unlimited liability is attractive to Names.

At present, they are required to have funds at Lloyd's representing 25 per cent to 30 per cent of risk, while corporates put up 50 per cent plus.

These ratios may change, however, as Lloyd's seeks to bolster the financial security above its central fund, which meets claims if members fail to pay bills or insurance syndicates go bust.

If push comes to shove – and 80 per cent of respondents to a survey of managing agents and corporate investors conducted by fund manager Whittingdale believe the Lloyd's Name has a short-term future – then it could be changes to capital ratios which prove the deciding factor for the falling numbers of Names in whether they continue to trade and how they do so.

UK NEWS DIGEST

PIA launches insurance probe

The Personal Investment Authority, the City of London regulator, is probing e series of allegedly fraudulent ettempts to cash in on the £4bn ($6.7bn) public offering of the Norwich Union insurance group.

The news emerged as National Westminster Bank suspended 18 staff for allegedly backdating policies to make them eligible for windfall bonuses worth about £500 each from the offering.

The PIA, the regulator for the private investor, said: "We are actively looking at a number of cases of possible misconduct involving independent financial advisers and the Norwich Union flotation. We are working closely with the company itself over the matter."

It is understood most of the cases involve independent financial advisers trying to secure bonuses for themselves, rather than helping their clients to get them. NetWest has suspended 10 independent advisers and eight administrative staff at its NatWest Insurance Services office in Bristol. Mr Martin Gray, chief executive of NatWest UK, said the affair had come to light following "a rontine investigation".

The company is the first UK life insurer to demutualise via a stock market offering. The precise terms of its listing have still to be finalised. *Christopher Brown-Humes*

■ UNIVERSITY FUNDING

Warning on 'research excellence'

Four of Britain's top universities yesterday applied pressure to the Higher Education Funding Council to favour centres of research excellence more strongly next month when the council allocates cash for research.

The vice-chancellors and provosts of Cambridge, Warwick, University College London, and Edinburgh warned that university funding policies risk destroying "irreparably" the quality of British higher education and research.

Although last week's assessment exercise by the funding council showed British universities to be producing more world class research than ever before, university funds "must be steered towards those departments that are of recognised international excellence", the university chiefs said. "If funds are dribbled out evenly and slowly, and excellence is ignored, we will fail," they warned.

Only by offering top salaries and the latest equipment could British universities compete for the world's best brains, the vice-chancellors said. *Nicholas Timmins*

■ TRANSPORT

BAA to operate airport rail link

BAA, the airports operator, is expected to announce today that it is to operate a third rail link from central London to Heathrow Airport, to the west of the capital. The only link at the moment is on the Underground railway. A second, faster, route will open in 1998 from Paddington station, the terminal station for sonth-west England. That will be operated by BAA as will the third link which will start in 1999 from St Pancras, the terminal station for many routes to the English Midlands. BAA is thought to have decided to award itself the St Pancras contract after examining 8 options including one from Mr Richard Branson's Virgin group. BAA is expected to justify the decision to award itself the contract by saying it would maximise the proportion of people using public transport to Heathrow by keeping fares down. *Maggie Urry*

THIS WEEK

Mine's a White House eggnog

DATELINE

Washington: conspiracy theories regarding Asian guests of the First Family are tiresome and unseasonal, writes **Jurek Martin**

The White House does look lovely at Christmas, especially from the inside, and the First Family is generous in sharing its delights – the 18ft trees beyond number, the gingerbread house, the exquisitely decorated state rooms, the military band and choir and one of the better buffets to be found anywbere, though the white wine could be drier.

This month, Bill and Hillary Clinton held 19 receptions, with an average of 400 guests a time, and three dinners, each sitting more than 200. They shake the hands of everyone present and two or three days later a photograph commemorating the occasion clatters through mailboxes, promptly to be mounted, framed and copied for transmission to mothers, fathers, uncles and aunts all over this country and several others.

The Clintons' entertainment may be a model of efficiency, but this is no assembly line operation. An invitation to a White House Christmas party is not turned down, even by the Clintons' most ferocious critics, a few of whom could be observed scarfing the giant shrimp (more than 5,000 per reception) one day last week before moving on to make other and less appetising meals out of their troubles.

Those of a more favourable or neutral disposition, like my daughter, were simply thrilled to be there and awestruck by the chance to meet the best-know face in the country (Bill, lest you wonder, not Hillary, nor Socks, the First Cat). The queue for the photograpb starts early, presumably out of fear that some crisis of state might drag him away from his handshaking duties – and, as Joe Klein, author of *Primary Colors*, correctly noted, it is the *ne plus ultra* of handshakes.

But, to inject the unseasonal, this is Washington, after all, and the hot topic of the moment is the matter of invitations to the White House of an entirely different nature.

Or, to be precise about it, who of Asian extraction got to meet the president in presumed return for having made generous donations to his re-election campaign and/or his Whitewater legal defence fund.

(One small, if subliminal, indication of the extent to which the capital, if not the rest of the country, is so consumed could be found in last Friday's parish magazine, The Washington Post. An otherwise straight article on White House Christmas parties, the source for some of the figures above, was illustrated with a photograph of a journalist and his wife having their invitations checked by a secret service agent. Although more than a handful of the newspaper's own staff were also scarfing the shrimp, the picture showed a Japanese couple).

It would, of course, be dangerous and downright improper to suggest that the US press is guilty of racial stereotyping in its pursuit of the president's Asian connections. But an Asian, unfamiliar with local habits, could well be excused from coming to that conclusion.

During the last few months, the staple diet of much reporting has centred on exactly how often the likes of the Indonesian Riadys, John Huang of fundraising notoriety and now Charles Yah Lin Trie, sometime Arkansas restaurateur, have checked in at the White House front gates – or perhaps, unseen, at the back ones – and who they brought with them (a Chinese arms dealer was introduced to the president at a coffee klatch by Trie, according to one account).

The cumulative effect is disturbing and lends itself to historical comparisons. For example, The New York Times reported straight-faced last week that Trie "visited the White House at least 23 times, and perhaps as many as 37, over the last four years", as if even one were a capital offence. Forty years ago Senator Joe McCarthy, never a stickler for numbers, used to brandish papers at the height of his witch-hunt claiming that there were 197 or 204 or 149 (or whatever) known communists in the state department.

It is also disturbing because America, if not alone in the sentiment, is again flirting with xenophobia, and at a time when its presence around the world is arguably more needed than at any time in recent history.

Asia is not only an economic miracle in its own right, but Asian immigrants to the US, now more numerous than from any other part of the world, including from immediately south of the US-Mexico border, have contributed mightily to the domestic economic and social fabric. There is now even a Chinese American governor in the state of Washington, the first on the mainland.

Clinton himself has raised this point on occasion, though it has been lost or discarded in the welter of print detailing the comings and goings of his Asiao guests.

That is not to say that there is not a legitimate story here about money, politics and influence, but there is not and never has been a functioning democracy, or any other form of government anywhere, where the three have not formed an unholy triangle.

To ascribe to Asians an especially sinister role is to play with conspiratorial fire. Better to stick with the real spirit of the season and down the White House eggnog.

The Monday Profile: Philippe Biberson, Médecins sans Frontières

A crusader with attitude

With his informal style, candour and passion, Frenchman Philippe Biberson epitomises the culture of Médecins Sans Frontières, one of the world's best-known humanitarian organisations, which carries out work across the globe.

The head of MSF's Paris office was dressed in black jeans and polo neck when I visited him. He leaves his door open even during interviews, and insists on meeting and bidding farewell to visitors in person at the entrance to the building rather than leaving the task to an assistant.

It was characteristic of MSF that it held no formal dinner and published no glossy book to celebrate its 25th anniversary. Instead, it has recently hosted two seminars to address serious questions about its future roles and responsibilities.

In the large, fast-growing universe of groups involved in international relief work, MSF has carved ont a niche, if only through its ability to achieve an extraordinarily high profile.

One reason for this is its history, characterised by a spirit of adventurism – even amateurism. Its roots date to the attempted secession of Biafra in Nigeria at the end of the 1960s. A group of young doctors, including the left-wing politician Bernard Kouchner, disillusioned with the abstraction of the French student movement of May 1968, volunteered to belp the victims of the Biafran conflict.

In 1971, determined to work outside the restrictions of confidentiality and impartiality imposed on those working under the Red Cross flag, they launched their own organisation, with a call for aid to deal with the aftermath of severe flooding in East Pakistan, and, the following year, with an earthquake in Nicaragua.

Ill-equipped and perhaps a little too eager for glamour and media attention at first, MSF's volunteers were sometimes referred to by other aid agencies as cowboys.

Tensions led to a split in 1979, when Kouchner left to found the rival Médecins du Monde. He wanted to operate a boat to rescne fleeing Vietnamese, while others said the initiative would simply encourage more refugees to seek to escape by sea, and thus risk death.

In recent years MSF has professionalised itself, becoming more sophisticated in its fund-raising, introducing training programmes, and developing a particular strength in rapid intervention when crises occur, such as the swift vaccination of 4.5m Nigerians against meningitis earlier this year.

Yet MSF is still committed to using volunteers, including a high proportion of novices. "I don't want little humanitarian soldiers or civil servants, bnt individuals who have the spirit to work with people who have the ambition to surmount a temporary crisis," says Biberson, a doctor who worked on missions in Honduras, Uganda and Thailand before occupying a series of posts in the Paris HQ. He was elected chairman in 1994.

Biberson stresses that MSF's work loses its meaning if it becomes just a technical question of "feeding children like they are little chickens". He emphasises the importance of analysing and reacting to political contexts – the other reason why the organisation excites headlines and even earns the wrath of other humanitarian groups.

Its controversial practice of *temoignage* – speaking out on the injustices its volunteers perceive, and describing the human reasons behind many disasters – has been there from the start. It led to its expulsion from Ethiopia in 1985 after it criticised the Mengistu government for diverting aid and implementing forced migration policies.

In late 1994, MSF withdrew from and denounced the operation of the refugee border camps in Zaire and Tanzania, which it argued were controlled and manipulated by the Hutu leaders responsible for the genocide in Rwanda. Further aid risked perpetuating the system which had led to the murder of more than 500,000 people, it maintained.

That unilateral decision – after internal debate by the organisation in France – created tensions not only with rivals but with the different national branches of MSF. These now number nearly 20, including Belgium, Spain, the Netherlands and UK.

Achieving closer co-ordination within this network is one of Biberson's campaign themes in the build-up to a vote on his re-election for three years next May. So is the idea of ensuring a middle course between complacency and systematic opposition. "We must be a mediator, with certain values, and a spokesman for victims," he says.

Meanwhile, Biberson reflects on the two recent MSF seminars. The first "pulled alarm cords" about a decline in funding, drug development and medical expertise relating to third world diseases, such as sleeping sickness.

The second discussed the impartiality of aid, and the need to withdraw when it becomes counter-prodnctive. "The problem with humanitarian crises is that explanations are often eclipsed by compassion," says Biberson. "If we can't eliminate that, there is a risk that the public will be demobilised."

Andrew Jack

FT GUIDE TO:

VIDEO GAMES MACHINES

I want a machine to play video games on. Should I buy a personal computer or a dedicated games console?

If you only want to play video games, a dedicated games machine like Sony's PlayStation is probably the best bet. These machines cost from about £200, plug into an ordinary television set and have excellent graphics. However, these video games consoles only run games specifically designed for them, which are expensive.

If you want a machine which can be used for other things, such as word processing, getting on to the Internet or running other software such as CD-Rom encyclopedias, then a "multimedia" personal computer with a CD-Rom drive and a sound card would be a better choice.

However, multimedia PCs cost about £1,000 ($1,670) and, at present, the graphics on a dedicated video console are likely to be superior.

In the past, teenage games players bought a particular machine because of the associated software, often only available on a particular device. However, games developers now tend to develop versions of games for all available platforms.

If I decide to buy a video games machine should I buy now, or wait?

There is never a best time to buy because, like other consumer electronics products, games-machine technology keeps advancing. However, we have reached an interesting stage in the evolution of electronic games.

The first generation of machines like Nintendo's SNES machine and the Sega Mega Drive were based on older 16-bit computer technology, and ran software sold in square-shaped plastic "cartridges". They are now nearly obsolete, replaced by a new generation of machines based on 32- and 64-bit computer chips which mostly run software sold on shiny CD-Roms.

What video games machines are available and how much do they cost?

In Britain and continental Europe there are two main video games machines on sale: the Sony PlayStation and the rival Sega Saturn. Both are 32-bit machines with similar performance and prices (about £200). However, Sony's PlayStation has proved the most popular, outselling Sega's Saturn by 2:1 in Europe where it has sold about 2m units. Sony claims it has sold about 10m PlayStations worldwide in the year since the machine was launched.

In Japan and north America, Nintendo has launched a new machine called the Nintendo 64 which boasts even faster performance and better graphics. Nintendo expects to sell 6m of the machines in the first year. The Nintendo 64 has proved so popular that the Japanese manufacturer has been unable to keep up with pre-Christmas demand in the US, even though only a handful of new games are available for it.

When will the Nintendo 64 reach Europe?

Nintendo is expected to launch the 64 in Europe in March. According to *CTW*, a weekly entertainment computer magazine, the new console will cost about £249 in Britain and Dm399 (£155) in Germany, the third biggest Nintendo market in the world.

Unlike the Sega or Sony machines, the Nintendo 64 retains the cartridge format for its software.

Which are the best-selling games, and how much do they cost?

That depends on the format, although more and more games are sold in all three formats: PC CD-Rom, PlayStation and Saturn.

Typically, games for dedicated consoles cost £40 or more while PC CD games range from about £20 upwards. Console games can also be rented from video shops.

Among the best-selling console games this year have been Psygnosis' Formula One racing car simulation which was recently named best-selling console game of the year in the UK, and Crash Bandocoot, both PlayStation titles.

Recent releases include Tomb Raider, complete with its heroine Lara Croft; Command & Conquer: Red Alert from Virgin, which tops the sales charts just now, and Fifa 97 from Electronic Arts.

Other games blockbusters include the Die Hard Trilogy and Soviet Strike. The best-selling game for the Sega Saturn at present is Virtua Cop 2.

Are there any portable games machines?

Yes, Nintendo recently revamped the hand-held Game Boy. The even smaller Pocket Game Boy costs £50 and comes in a sleek metallic-looking case.

What does the future hold?

Hold on to your hats (and wallets). While dedicated games machines are likely to continue to be popular, big advances in PC graphics and multimedia capabilities are around the corner.

Among developments, PC manufacturers are readying new machines which will use Intel's MMX technology – due to be launched next month – and stunning 3D graphics cards built by Videologic and others.

How big is the games market?

Sales of video and computer games are rising worldwide, although the market is still below its peak of the early 1990s.

London-based Durlacher Securities estimates that UK retail sales of games hardware and software reached £797m in 1993, but fell to £509m in 1994. Other countries followed the same pattern. Last year the UK market rallied, reaching £600m.

Paul Taylor

Stephanie Flanders • Economics Notebook

Emu: hard to imitate the US

A rich core and poor periphery seem an all-too-likely outcome

The theme of this year's debates about Europe seemed to be: "It's not the economy, stupid." True, the headlines seemed to be about economics: the latest deficit forecasts for Italy or France; arguments about fiscal policy after monetary union. But conversations about them – be it with supporters of Emu (European monetary union) or opponents – invariably ended the same way. "You know," people would say knowingly, "none of this is really going to matter. From now on, it's all about politics."

The received wisdom is probably correct. Whether Emu happens on time, who joins, and when, will ultimately be determined by politicians.

But sooner or later the debate will have to turn from political differences abont Europe's future to the economic differences across Europe, and how these will be affected by an "ever closer union".

Even aopporters of closer European integration will admit that the European Union is not (yet) the United States of Europe. The question, for both sides, is whether it is likely to become so.

Consider two striking structural differences between the US and the EU economies, highlighted in a recent paper by Diego Puga of the London School of Economics.

The first is the greater geographical concentration of economic activity in the US. The six EU countries with the most concentrated employment account for nearly half of the non-agricultural jobs. In the US, the 15 states with the highest employment density also account for nearly half of the non-farm payroll. But those six EU states account for more than one fifth of the surface area of the EU, in contrast to the high-employment US states, which account for a little more than one tenth of the territory of the US.

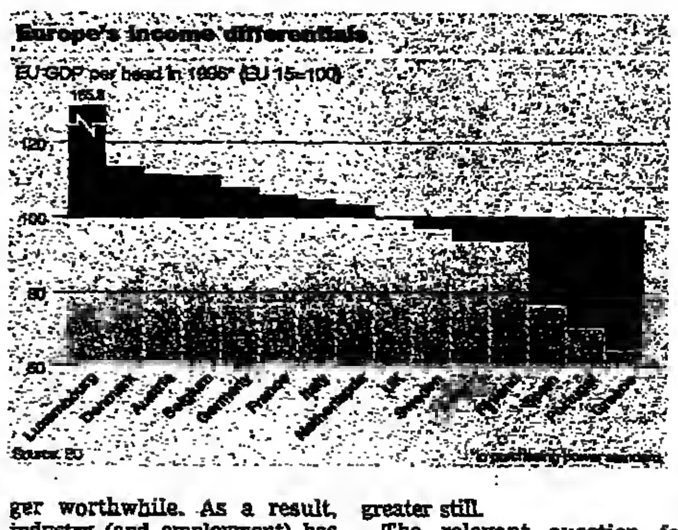
The second, related, distinction between the two economies is that incomes are much more equal across US regions than in the EU.

Puga calculates that one quarter of the EU population now lives in so-called "objective one" regions – those whose GDP per capita has been low enough, relative to the EU average, during the last three years to make tham allgible for European regional development funds. He claims that if the same rules were applied in the US, only two states, Mississippi and West Virginia, containing only 2 per cent of the population, would qualify.

Economic integration explains both these contrasting features of the US. Over time, tighter economic links between the states – driven by declining transport costs and economies of scale – have made it sensible for companies and their suppliers in particular industries to cluster together.

As each cluster has formed, wages for workers with the relevant skills have been pushed up, leading US workers – being footloose types – to move into the area.

In a textbook case, workers carry on moving until the wage gap is so small that it is no longer worthwhile. As a result, industry (and employment) has ended up more regionally concentrated, although income gaps across regions are small.



Supporters of European monetary union argue that the same will eventually happen in Europe as a result of closer integration. But clearly, US-style narrowing of income differences across regions relied heavily on workers' willingness to move to where the jobs were.

Nearly all agree that this will not be so much of a factor in the EU, where less than 1 per cent of the workforce is employed in a member state other than where they were born.

Puga cites evidence suggesting that UK workers are 25 times less likely than Americans to move to a different area – let alone a different country – in response to regional wage gaps. Immobility within Italy is greater still.

The relevant question for Europe is what happens when an economy becomes more closely integrated but workers do not cross regional or national boundaries to find jobs.

Puga's answer is that companies will respond to the declining cost of doing business across borders as they did in the US: by concentrating production in certain core regions. As in the US, this will bid up wages in those areas. But since workers are less likely to move in response, this will widen the income – and unemployment – gaps between core and periphery rather than narrow them.

A report pnblished last autumn by the European Commission suggested that this process was already underway. Despite greater income convergence between EU countries, it found that the income gap between Europe's successful and unsuccessful regions has been increasing.

Eventually, Puga believes, the same forces that fostered this divergence will reverse it. If the unemployed or low-wage workers will not go to business, business will have to come to them in order to cut costs. But this "long run" could be very long indeed, requiring much larger regional wage differences than today's.

In the meantime, governments – and the European Central Bank – will have to deal with an EU economy in which economic conditions across regions vary even more dramatically than at present.

Monetary union may encourage workers to be more mobile, but the record is not encouraging. After all these years of closer integration, workers in the EU today are as likely to move to regions or countries to find jobs as they were in the early 1970s.

More likely, a single currency will simply speed the emergence of core and periphery, already taking place. But Emu or no Emu, governments will be under pressure to narrow the gap, with much larger national or supranational transfers from rich regions to poor ones.

Otberwise, increasing economic integration, far from bringing Europe's citizens together, could end up driving them even further apart.

The Rise and Fall of Regional Inequalities: Centre for Economic Performance, November 1996

هكذا من الأصل

BUSINESS TRAVEL

Travel News · Roger Bray

Airport plans

The Dutch government has earmarked three possible offshore sites for a new airport when environmental pressures put the lid on expansion at Amsterdam's Schiphol. One is in the North Sea, a second in the port of Rotterdam, the third in the Ijsselmeer. All would be on reclaimed land.

But there is some way to go before a choice is made. First, parliament must decide if the Netherlands wants to stay in the race for international air traffic. Schipol now handles about 27m passengers a year and is constrained to a maximum of 44m. If a new airport gets the go-ahead, it will be needed some time between 2005 and 2010.

On the case

Just in time for the Christmas rush, Zurich Airport has opened a gleaming new baggage hall in Terminal A – with a long window so that passengers can see whether their meeters and greeters have turned up.

Capacity of the baggage delivery system has been increased, with the aim of delivering luggage to carousels more quickly. The terminal is used by Swissair, Crossair, Sabena, Austrian Airlines, Singapore Airlines and Delta.

Bogus police

The scourge of the bogus policeman is spreading. The UK Foreign Office, which has already identified the problem in Romania and Iran, now warns travellers to be on guard against them in the Czech Republic. They may ask to see your foreign currency and passport, it says.

Don't show them, but offer instead to accompany them to the nearest police station.

Down the hatch

Airlines may be compelled to fit easier-to-open emergency escape hatches on their aircraft. Concern about existing hatches arose more than 10 years ago, when a passenger who opened an over-wing exit to escape from the fire which broke on a Boeing 737 at Manchester Airport fell back under its weight.

This kind of hatch has to be pulled inward, swivelled and thrust out through the opening. Cabin staff are supposed to ensure that people sitting by them are strong enough to cope with them in an emergency.

Left waiting

Latest figures from the Association of European Airlines show a marginal reduction in the number of international short-haul and medium-haul flights delayed in the third quarter. The proportion held up for more than 15 minutes was down from just over 20 per cent to 18.4 per cent. Don't get too excited, however. Air traffic control improvements helped to reduce the incidence of delays to such flights from a peak of 23.8 per cent in 1989 to 12.7 per cent in 1993 – but the rot may have set in again. In the first nine months last year the figure was 17 per cent. This year it was approximately 18 per cent.

Snow business

Escape from New York. A two-day ski package at the Vermont resort of Killington looks tailor-made for winter business visitors with time on their hands. No need to go to the airport. Travel is by Amtrak train from Manhattan. The journey takes about five hours. Two nights with breakfast, lift passes and transfers from nearby Rutland station cost $369 (£222) – $299 if you share a room.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
[illegible]	11	11	12	11	[illegible]
Hong Kong	23	24	25	25	25
[illegible]	[illegible]	3	[illegible]	5	5
Frankfurt	0	0	-1	-2	-3
[illegible]	[illegible]	13	8	[illegible]	[illegible]
L. Angeles	17	19	21	18	21
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	6	2	1	3	5
[illegible]	5	4	3	[illegible]	[illegible]

Information supplied by Meteo Consult of the Netherlands

Maximum temperatures in Celsius

Across the language gap

English may be widely spoken but it has its own problems as a lingua franca, says Amon Cohen

There is a (very) old joke that a person who speaks three languages is multilingual; a person who speaks two languages is bilingual; and a person who speaks one language is an Englishman.

Shop-worn or not, the joke is a useful guide when deciding which language is best for addressing an international audience. Americans tell the same gag about themselves, and there is an understandable reason for this transatlantic linguistic laziness: English has established itself as a global *lingua franca*.

Since an estimated 350m to 400m people speak English as their first language and a similar number – many of them from the international business and scientific communities – speak it as their second language, the incentive to learn anyone else's tongue is small.

For those who doubt the ascendancy of English, consider the statistics from the European Commission. These show that 83 per cent of pupils in general secondary education in the EU learn English. French is a remote second with 32 per cent, followed by German with 16 per cent and Spanish, the world's fastest-growing first language, with 9 per cent.

A company wishing to communicate in either written or spoken English, or both, also needs to consider whether American or British English is more appropriate. This dilemma surfaced recently at the first editorial advisory board meeting of BTN Europe, a European edition of Business Travel News, a US publication for corporate travel managers.

When the question arose as to which type of English should be the standard for the new publication, the board, culled from across Europe, was sharply divided. The Britons assumed it would naturally be written in British English. But several of the continental Europeans insisted that it should be in American English because that was the style they had learned and understood best. To present the magazine in British English, they contended, would be to give too strong a UK bias to a publication intended to be pan-European in outlook.

The Brits had apoplexy. They were scandalised at the suggestion that they should have any truck with a debased form of their language.

> The Brits were scandalised at the suggestion that they should have any truck with a debased form of their language

It is a story that does not surprise David Crystal, author of the *Cambridge Encyclopedia of the English Language*. "This is a transitional time and these conflicts are erupting all over the place," he says. Yet emotive as the question of language is, Crystal contends that the differences between British and American should not be exaggerated.

"There are hardly any grammatical differences," he says. "We are talking about 1 per cent of the language being different. 99 per cent is the same." In written form, the differences are mainly in spellings such as color/colour. Philip Smith of the UK-based Institute of Translation and Interpreting finds clients demanding both styles from him.

International companies tend to believe that US English is more accessible, he says. Yet he also works for the United Nations, where the official style is British English. For Smith, the American vs British debate is specious. "The type of English does not matter a great deal," he says. "In general, good speakers on their native patch will do equally well with an international audience."

Derek Harris-Taylor, another member of the institute, concurs with Smith and also stresses the need to avoid parochialism, particularly in humour, which – notoriously – travels badly. Harris-Taylor recently interpreted for a Yorkshire mayor at a European conference, and had great difficulty translating into French his quip that you can always tell a Yorkshireman but you can't tell him much. It was a fine joke for Britons, but the play on words and the assumed cultural knowledge made it difficult for most foreigners to understand.

Language schools are tackling the internationalisation of English with a new discipline – "English for special purposes". Its aim is to give students a grasp of written English, and it focuses on scientific vocabulary and core grammar.

Another naw dialect is International Business English, although this is given short shrift by Crystal. "I look at this with some scepticism," he says. "This is often an ordinary language course with a few bits of economic vocabulary thrown in. It is more a teaching strategy than an actual phenomenon."

What is happening more naturally is the evolution of what Crystal calls a "regionally neutral English", where speakers strip their vocabulary of parochial words and idioms. "In 50 years' time there will be a new, regionally neutral international standard, and native English speakers will consciously switch into it," he says.

Smith believes this is already happening. "It would appear that there is a hybrid offshoot of English – a Eurospeak," he says. Part of this new language he identifies has European words, such as "derogation", the French word for waiver which has crept into international English usage by virtue of being an EU bureaucratic procedure. Smith also observes that international English favours nouns rather than verbs. A non-native speaker, for example, would say "I have the hope that you come", rather than "I hope that you come."

Such is the spread of international English that Smith says he has been to conferences where continental delegates will listen to a Dutch person speaking English but resort to headphones and an interpreter when a Briton takes the platform.

This same trend has been identified by Helene Panzarino, a UK-based American who runs the Business English Language Association language school. "Non-native speakers are happier speaking this hybrid because they make the same grammatical errors and understand those errors in others," she says. "They also understand each other's pronunciation better and they generally speak English slower."

Panzarino has noticed the transformation of English in Poland, where the style used to be heavily British. On her most recent trip, she sat in as Poles conversed in English with representatives from Fiat of Italy and Daewoo of Korea, the car-makers. "They had more difficulty understanding me than each other," she says.

Capital on the move

Travellers to Kazakhstan who head for Almati in the belief that it is the capital will increasingly find themselves wrong-footed. At the weekend, the country's ministry of transport and communication moved to tha new capital, Akmola – the first of 27 ministries expected to move there by the end of next year.

"I would not say that everything is 100 per cent ready," Yuri Lavrinenko, the transport minister, said during a farewell ceremony.

President Nursultan Nazarbayev announced the change two years ago, saying that northern Akmola is more centrally located.

● The number of fatalities in aircraft crashes often varies sharply from year to year. Nevertheless, 1996 is proving the worst year on record for commercial airliner crashes worldwide, with some 1,187 fatalities. That exceeds the 1,169 deaths recorded in 1985, according to numbers compiled by the London-based company Airclaims.

In separate figures from the US National Transportation Safety Board, the number of fatalities caused by crashed aircraft operated by sizeable US carriers so far this year is 364, against 175 in 1995.

Fighting fish inflame trademark wars

Protection of brand images has entered a new phase, reports **Patrick Harverson**

Q: When is a goldfish not a goldfish? A: When it's a trademark.

That's not much of a joke. But then senior managers at British Gas and the design consultancy Addison are not laughing, either.

The companies will meet in a UK court next month to settle the issue of who owns a goldfish. Or, more exactly, who owns a particular image of a goldfish that both Addison and British Gas claim as their own.

A lot of money is at stake. Since September British Gas has spent millions marketing its new Goldfish credit card, and hopes to use the goldfish image on a range of products and services.

Addison, however, is claiming the British Gas goldfish is an infringement of its own long-standing trademark, and is seeking an injunction to stop British Gas from using the image, as well as damages.

Addison is relying on the 1994 Trade Marks Act which followed a European Union directive in extending the protection afforded to registered trademarks. The change meant that if a company could prove that a trademark similar to its own had damaged its business or diluted the value of its own trademark, then there was a legal case to be answered – even if it was unlikely that consumers had confused the two companies' products or services.

Trademark lawyers say that it is the 1994 act, combined with an increasing awareness of the valne of brand images, that is behind the growing number of trademark disputes.

Apart from the Addison-British Gas dispnte, other recent UK cases have pitted Kellogg against Tesco, Asda against McVitie's, the United Biscuits subsidiary, and Esteé Lander against Meryl Durdy, a Cumbrian retailer whose shop bore the same name as an Esteé Lauder cosmetics range.

Fiona Nicholson, head of the intellectual property law department at Maclay Murray & Spens, a Scottish commercial law firm, says: "Clients are waking up to the commercial valne of brand names and a lot of companies who previously had not been interested in pursuing infringements of trademarks are now doing so. It's part of the whole revolotion in intellectual property rights and the realisation that intangible assets have value."

Growing awareness of the valoe of hrands is taking trademark law into previously uncharted territory. Last April, in Japan, Sumitomo Rubber Industries registered a smell as a trademark to protect its new rose-scented tyre product. Less fragrantly, in the UK Unicorn Prodncts has applied for the smell of bitter ale to be registered to protect its beer-smelling darts.

"The whole area was opened up by the change in the Trade Marks Act in 1994. For the first time you could register rights to smells, sounds and images," says Nicholson. He adds that it was inevitable that as more companies registered more trademarks, the number of legal disputes would climb.

Tom Bracket, deputy chairman of UK-based Interbrand, the hrand consultancy, says growth in trademark registration also reflects the increased efforts companies are making to ensure their products and services stand out in an increasingly homogeneous marketplace.

"There has been a levelling up in terms of product quality . . . and the brand is the most potent way of differentiating your product from the competition," he says.

Another factor behind the rise in the number of trademark disputes is the big increase in the variety of media through which companies can commnnicate with their customers. "In part, the trend is driven by the multimedia explosion and the increased ease with which people's intellectual property can be abused," says Stephen Groom, head of intellectual property law at UK sollcitors Lewis Silkin.

However, companies may be expecting too much protection from the law, warns Groom. He says it may not be as easy to win a trademark infringement case under the 1994 act as some people think, becanse some of the new tests of what is and what is not an infringement of the act are difficult to follow.

Nor does everyone believe that widening trademark protection is necessarily good for business. "It is good for business if those who have sunk a lot of investment into developing distinctive intellectual properties are going to be properly protected, hnt it is not good if people acquire unjustified monopolies," says Groom.

Tom Brackett is also concerned at the rise in cases: "It is arguable whether or not this whole thing can go too far. In allowing companies to attempt to protect every aspect of the presentation of their products in the marketplace, they can hurn up huge amounts of energy and cash."

In-your-face outfit Yellow M unfazed by malice in Adland

'We're not arrogant,' claims a Tyneside agency, answering its foes. **Chris Tighe** reports

Will Walker

Yellow M's helmsmen: from left, Mike Dethick, Roy Woodward and Simon Cunningham

It is not surprising that hot UK advertising agency Yellow M is viewed sceptically by rivals, for in four years it has zoomed from two men in a one-room office, with an unreliable Ford Orion and no clients, to self-styled largest ad agency in north-east England.

This has been quite a year for Yellow M, a Newcastle-based advertising and design agency. Indeed, its winning in mid-September of motor dealer Reg Vardy's £7.5m advertising and marketing account shot it into 14th place that week in the business performance league compiled by the UK's advertising industry organ, *Campaign*, and ranked it top new-business harvester outside London.

Since clinching the Vardy deal, which followed a £4m win last May from National Tyres and Autocare, Yellow M has won a £1m account from bedmaker Slumberland and a £5m deal with Index Extra, part of the Littlewoods Home Shopping Group.

Welcoming Reg Vardy's account, Yellow M's chief executive, Mike Dethick, said: "This confirms Yellow M's position as the north-east's No 1 advertising agency."

But chutzpah in Adland invariably excites backbiting. A rival Newcastle agency insider retorts: "The biggest account they work on is themselves."

In an industry not known for shyness, Yellow M has a reputation as an in-your-face outfit, both for its founders' brashness and self-confidence and for its early work for the anti-smoking charity Northern Ash, which parodied an Imperial Tobacco Company campaign by putting "Reg", a northern advertising anti-hero, on life support.

Much longer established Tyneside agencies are keen to point ont that while Yellow M proclaims media billings (the sum spent on clients' behalf) this year in excess of £20m, a large proportion of such a total will be channelled through the Manchester-based Media Centre, which buys the requisite media space on behalf of the clients.

Yellow M argues that in announcing billings in this way it is merely following Adland's standard practice. Dethick explains that his agency's corporate turnover in the year to April 1997 will be £3.5m, and next year, he forecasts, it will double.

Yellow M at present employs 56 people in Newcastle; has opened a Manchester office with seven staff on the back of its National Tyres work; and is planning to set up a Scottish office in the spring. It also owns a Tyneside-based multimedia and digital printing company, Vivid.

Regional rivals, who consider Yellow M arrogant – "They're getting a bit old to be new kids on the block," says one crisply – have been irked by the agency's apparent claim to be the champion of creativity in north-east England.

"We've been described as a creative boutique by our competitors – those who want to undermine our confidence with the more robust advertisers," says chairman Roy Woodward.

In contrast to the whizzkid image fostered by Dethick and co-founder and creative director Simon Cunningham, Woodward is an ad industry heavyweight, well known nationally.

One-time creative director at Bowden Dyble Hayes in Manchester, he was chief executive of Edinburgh-based Hall Advertising; chairman of Saatchi & Saatchi's UK regional network; and founded the Timberbush Agency.

Dethick is – almost – modest in explaining why Woodward was brought in as chairman nearly two years ago. Not all clients, says 35-year-old Dethick, are won over by "young, dynamic people flying around".

Tony Murray, editor of *Adline*, a monthly regional marketing magazine based in Birmingham, that covers the industry outside London, believes Yellow M's "meteoric" rise is partly due to assiduous use of Woodward's excellent contacts. That, Murray reckons, has helped Yellow M gain significant business beyond the north-east: "Of all the agencies outside London, Yellow M have had the best year in terms of oew business."

He also believes that Yellow M, for all its talk, has undergone profound change in the last two years, exemplified by its display-ad work for Vardy: "This requires a high level of service but perhaps a lower level of creativity than you would have associated with Yellow M."

Former Yellow M board members Chris Rickaby and Mark Martin, creatives who defected to a Newcastle rival, Robson Brown, say their decision was partly due to a belief that the "heavy retail focus" of Yellow M was taking it away from its creative roots.

Dethick admits that some accounts are not going to win creative awards, but insists the agency needs a mix of business.

Phillippa Clothier, founder and managing director of Newcastle-based CMC, regards Yellow M more charitably than some other Tyneside rivals. "They have done extremely well," she says, but has reservations about the speed of Yellow M's growth.

Dethick, though acknowledging "growing pains", insists that Yellow M is going from strength to strength. "Clients must hear every single agency saying the same thing, and think: 'What a lot of bullshit'. [But] we have backed the bullshit up."

Cybergambling needs an ace

Internet casinos are not yet playing with a full deck, says **Richard Vadon**

Sex was one of the first things sold on the Internet. The nature of the Net made cybersex regulation nearly impossible, and the nature of the product ensured there would always be a demand. Now Web entrepreneurs are pondering another vice – gambling. Virtual casinos are fully operational in cyberspace, and offer blackjack, roulette, slot machines and sports betting.

But before Net gambling really takes off, regulators in the US are trying to kill it. The state government in Minnesota, for example, has taken action against Granite Gate Resorts, a Las Vegas company preparing to offer sports betting online. In California, telephone companies are being threatened with prosecution if they do not cut off services to Net gambling concerns.

To try to escape harassment, operators are moving to havens like Antigua, Belize and Monaco. But that has not placated the regulators. Tom Gede, special assistant to the attorney-general of California, has said: "We're going to take an aggressive stand on this and we'll interpret the law as broadly and prohibitively as we can. There will be no havens."

The National Association of US Attorneys-General has urged the federal government to make betting on the Net a federal crime. That would force the federal Department of Justice to prosecute Americans who make bets. One senator has already tried to introduce legislation to have all Net gambling made illegal, but it was killed in committee.

Much as the US government would like to stop cybergambling, there is not much it can do in practice. The last thing it wants is to waste time tracking Net gamblers. Florida's attorney-general recently conceded that "evolving technology appears to be outstripping the ability of government to regulate gambling activities on the Internet and of law enforcement to enforce such regulations."

Online gambling may be safe from regulation, but it is not yet a success. Sue Schneider, managing editor of *Rolling Good Times OnLine*, a magazine that tracks the industry, says very few virtual casinos are taking real bets.

Not surprisingly, the operators' biggest problem is how to deal with real money. Practically all the cybercasinos handling real money make gamblers register and provide them with the information necessary to establish a way of transferring funds, such as credit card or direct bank transfer.

Anthony Cabot, a lawyer, thinks this method less than ideal. "In effect potential gamblers have to deposit money with the casino and cannot remain anonymous."

But online casino operators also have to make their service quick enough to stop the punters getting bored. A good example of a World Wide Web-based virtual casino is Casino Royale. It is quite fast and uses its own digital cash called funbucks. When you place a bet, the screen "jumps" and cards appear. A regular user, Stuart Resnick, has been playing for a couple of months and is about $20 (£12) down. But, as a serious gambler, he only thinks of it as a bit of fun.

"Whereas real-life casinos offer chances for an edge over the house, the odds offered by Casino Royale aren't as good. But as the minimum bet at blackjack or poker is the equivalent of $0.20, it's still cheap entertainment," he says.

Web games are not the only type of Net casino. InterCasino has its own dedicated software which contains all the graphics, music, sounds and speech necessary for playing virtual casino games. Only the control information – about the state of the game and the bet – is sent across the Net.

That, according to Mark Rivkin, vice-president of the software's developer, Cryptologic, gives InterCasino an edge. "By providing the customer with all the necessary graphics and sound data initially, we can ensure that game-play and speed is not sacrificed. Web-based casinos have to sacrifice speed and playability if they improve their graphics or sound files beyond a certain level. Our control data is on average approximately 150 bytes. The Web pages average in the 40,000 byte range."

The speed of InterCasino is impressive, but when you see the computer dealer beat your 20 with a 21, it's hard not to feel that you might have been duped. If you play blackjack in a casino you know what the odds are, but on a computer you don't.

Experienced gambler Greg Limes tried online gambling but was unhappy with numerous things. "I had no strong assurance of any of the things that I require before placing any sort of bet. Are all the rules of the game available? Is there any proof the game is not rigged? Will I be credited for any wins? What assurance do I have that I will not be debited for losses that I did not incur? And what legal recourse do I have?"

These are rational fears. That is why gambling in real casinos is heavily regulated. What makes the Net casinos so attractive to entrepreneurs – no regulation, no need for expensive premises or fancy security staff, perhaps an off-shore location – makes Net gambling seem unsafe to punters. Ironically, the very lack of regulation that has created an opportunity is hampering the development of online gambling.

The operators are trying to allay punters' fears. An increasingly common method is to base only part of the business offshore. US public company Interactive Gaming & Communications Corp, for instance, has a wholly owned subsidiary, Sports International, located in Grenada. According to Interactive's spokesman, Jeffrey Erb, that gives customers more confidence.

There are no real signs of an online gambling boom, though Sue Schneider thinks that sports betting will be the first area to take off. Until things settle down, most punters will doubtless keep their money in their pockets.

Tim Jackson

Son-of-Freewheelers

Did you know that there's someone working in the building next door to your office who lives only three minutes' walk from your house? Did you know that person drives to and from work at exactly the same time as you?

I make no claim to clairvoyancy. But it is one of the irritating facts of life that the roads are crammed with lone drivers commuting, many of whom would be happy to share rides if only car pooling were a little less inconvenient.

Car pools suffer from the chicken-and-egg problem. Because most people do not expect to find a convenient ride-sharing arrangement, they don't register for car pools. The result is a vicious circle of low usage rates and low success at matching. There are other difficulties, such as irregular working hours. Yet if information could flow easily between potential sharers, the waste of effort and money that solo commuting represents would be shown up for what it is.

The Internet ought to be the ideal medium for facilitating car pools. It allows information to be exchanged swiftly, cheaply and accurately, without high labour costs. By keeping track of drivers' and passengers' details, it can deal with the fear of attack that discourages people from picking up hitch-hikers or hitching themselves.

In a quick search of the World Wide Web last week I came up with two Net-based car pool systems, one in Connecticut and New York, the other in the Netherlands. But a particularly interesting example is a British company called Freewheelers, which created a ride-sharing network focusing on passengers paying drivers for long-distance lifts between university towns. It had more than 16,000 members.

Freewheelers got one important thing right. By concentrating its attention on students, for whom e-mail addresses and Web access are increasingly becoming standard features of life, it identified a section of the population that has a much higher incidence of Net access than average. Yet Freewheelers' Web site says that the company has ceased trading. Why?

My analysis is that the company, based in Newcastle, showed classic symptoms of the British disease of trying to charge unrealistically high prices for Web services. Any venture capitalist in Silicon Valley could tell you that the important objective of a business whose value depends on a network ought to be to sign up new members, not to maximize short-term cash flow. Yet Freewheelers, ignoring even the resonance of its own name, tried to charge passengers a "matching" fee of £3 ($5) for each shared ride it created. Such a fee – even more so a membership fee – acts as a tax that discourages people from trying out the service unless they are really sure they will like it.

There were probably other problems, too. One must have been that most British motor insurers refuse to cover drivers who carry fee-paying passengers. Also, the company proposed that passengers should compensate drivers at 3.5 pence (5.75 cents) a mile. With an implied price of only about £13 for the 400-mile trip from London to Edinburgh, this figure was probably too low to encourage drivers to participate unless they were impoverished students themselves or the sort of kind souls who give lifts to hitchhikers anyway.

Yet none of these difficulties is insuperable. A son-of-Freewheelers, properly executed as a business service in areas where offices have a high concentration of Net users, could be a roaring success. So here, as a Christmas gift to entrepreneurial readers looking for a new start-up idea, are some thoughts on the ingredients that could make such a business a success.

First, make the system attractive to commuters as well as to those who want to make long journeys. Using home postcodes or zipcodes, the system should be able to match people who live and work around the corner from each other. The system could also work closer to real time: instead of setting up a regular daily ride share at fixed times, users with irregular working hours could arrange a one-off share at a few minutes' notice.

Second, be creative with payment mechanisms. In some places, such as California, the right to use lanes reserved for cars carrying two or more passengers is a big incentive to participate in such a scheme. Elsewhere, riders could make online payments of very small sums, and drivers could draw benefits either on their credit cards or as frequent-flyer miles.

Third, market to intranets. Companies with lots of people at a single site, all connected to a single intranet, could easily rent the service themselves; the saving in parking spaces would be a significant incentive.

Fourth, get free advertising from other companies at Web sites. Companies could be encouraged to link their Web site to the son-of-Freewheelers service, so that visitors looking for the company's office address could arrange a one-off ride share with a single click.

Clearly, there are lots of unresolved issues, the most important of which is that it is difficult to guess how large the market for such a service might become. Since spontaneous ride-sharing is effectively impossible without the Net, there are no precedents. But the business described here would do more than make profits. It could change the lives of many commuters and help make roads less congested.

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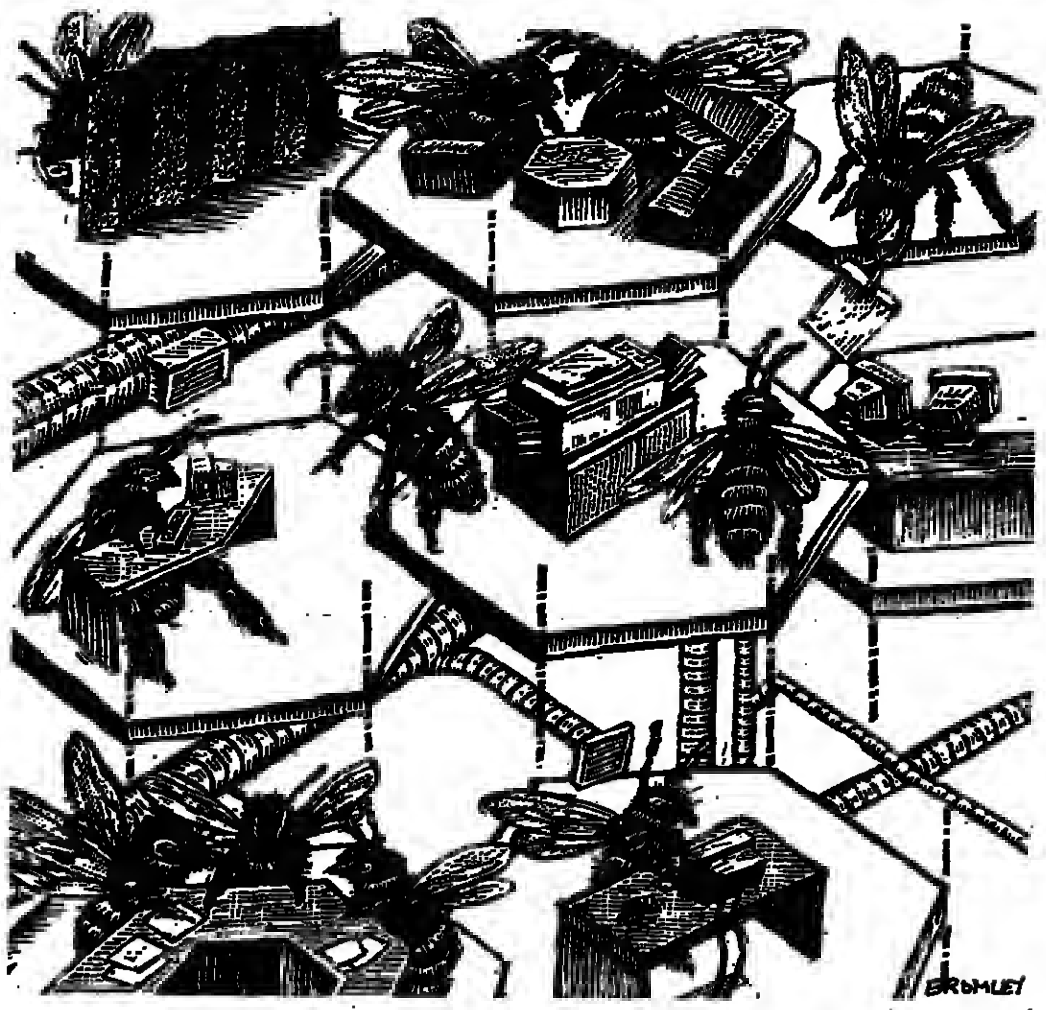


Space – the final frontier

Vanessa Houlder on how new technology could transform the traditional design of the office

Who gets the best view in your office? Nine times out of ten it will be the boss. But just the opposite will be the case at British Airways' new Combined Business Centre near Heathrow. The goal, says Kathy Tilney, a designer working on the project is to remove "the old stigma of status".

The best positions, on the periphery of the largely open-plan building, will be assigned to support staff who spend most of the day at their desks.

The cellular offices will be on the inside of the building, on the grounds that managers move around so much that they do not require a view. Instead of offices being earned by seniority, they will only be allocated to managers who need them for meetings or confidential work.

Secretaries will no longer be required to guard the office doors of senior managers, who are expected to become far more accessible to the rest of the staff.

The office is designed to suit "a new way of working", says Tilney. "People are being judged, not on being in the office, but on results."

Management thinking has always influenced office design. But changing management styles, coupled with new technology and a need to cut office costs, are prompting a particularly far-reaching reappraisal of office interiors.

"There has not been for 100 years such innovative thinking worldwide in office design," says Frank Duffy, a recent president of the Royal Institute of British Architects and the head of DEGW, an office design consultancy.

Architects such as Duffy argue that the design of the conventional office is a hangover from the 19th century, when large numbers of clerks needed to be accommodated, supervised and given cheap access to the typewriter and the telephone. Now, information technology is introducing far more flexibility into where and when people work.

Offices are expected to drive down occupancy costs, whils stimulating creativity, interaction, invention and teamwork, according to Duffy. "In a time of rapid change, the design and use of office space is becoming critically important for achieving success in business," he says.

Some aspects of the designers' ideas may sound familiar. Over the past 20 years companies have experimented with large open-plan offices, particularly in the US and UK, with a view to fostering interaction, discouraging shirking and reinforcing an egalitarian organisational culture.

Many of these initiatives have proved disappointing. A study by the Copenhagen Business School concluded that managers with private offices communicated with more people, and more openly, than did managers in open offices – largely because they made more effort.

Moreover, some individuals' productivity has been found to suffer if they feel they have insufficient control over their work environment – a particular problem in the air-conditioned and hermetically sealed offices of the 1970s. A study last year by the Building Research Establishment attributed Sick Building Syndrome to office workers feeling a sense of powerlessness over their environment.

As a result, offices, particularly in the Netherlands and Germany, are increasingly giving employees the ability to open nearby windows, personalise their immediate surroundings and adjust local air-conditioning.

But perhaps the most common problem of all is that people often find it hard to concentrate in large open-plan offices. There is often a conflict between the staff's need for interaction and their desire for autonomy.

Duffy believes that offices can be divided into four types, depending on the relative importance of autonomy and interaction.

● The "hive" is typically uniform, open-plan and impersonal. It is for routine work that involves low levels of interaction and low individual autonomy, such as telesales, data entry and routine administration operations.

● The "cell" is typically either a small, enclosed office or a highly screened workstation. It is for highly autonomous individuals who do not need much interaction with their colleagues, such as some accountants, lawyars and other professionals.

● The "den", which is usually an open-plan room designed for groups, suits jobs that are highly interactive but not necessarily highly autonomous. Examples include design, insurance processing and some media work, snch as Channel 4's offices in Horseferry Road, London.

● The "club" is for employees who need to be able both to work privately and to communicate with colleagues. They usually share desks, since they occupy space intermittently and over an extended working day, possibly combining teleworking, home-working and working at clients and other locations. Typical "club" organisations include advertising, media companies, IT companies and some management consultancies.

Club-style office designs are attracting attention, at least in part because they are a vehicle for innovative architecture. One of the most radical examples – "the epitome of today's location-free office", according to *Tomorrow's Office*, a new book by Santa Raymond and Roger Cunliffe – is Chiat/Day, the New York advertising agency.

Instead of individual offices, it has project rooms, a "living room" with sofas, a café and an open piazza and mobile computers attached to a metal grid which are hung with thick quilts to give sound and visual privacy where necessary.

Another explanation for the appeal of club-style offices is that they save money. For example, Andersen Consulting saved $1m (£600,000) a year when it moved its French headquarters from 10,000 sq m of space at La Defense to a 7,000 sq m award-winning design on Champs Elysées – a project that recently won an award from the Design Business Association "because of the ingenuity it displays in freeing space from the ownership of individual employees with cost efficiencies. To improve staff morale at the same time is quite a feat."

This comment highlights a common problem with desk-sharing, or "hot-desking" as it is known. It is often deeply unpopular with staff. It is harder to make chairs and terminals comfortable, close ties with immediate colleagues are lost and employees often feel that they have less visibility, status and defendable territory.

In the view of some designers, employees will have to get used to far more radical changes to desks than merely having to share them. Stacey Litwin-Davies, design director of Morgan Lovell, an office design company, believes that desks should be adjustable, allowing people to stand, as well as sit. She says that people need to sit down for only a small percentage of their time – when they are writing or dealing with e-mail. Research has shown that some people prefer to stand when they are talking on the telephone, because they feel more in control, she says.

Raymond and Cunliffe go even further. They argue that the advent of voice-activated computers would remove the need for a flat desk on which to rest a keyboard. "The individual may well prefer to stand up to work, to lie in a hammock or to walk back and forth with her voice-activated computer hanging round her neck," they say.

Be that as it may, new technology will undoubtedly make a profound impact on the appearance of offices and furniture. In the last century, the typewriter provided a precedent. It was credited with standardising the size of paper used in offices, and as a result, the size of all the files and furniture which contains them.

Morgan Lovell has built an "office of the near future" in London's Threadneedle Street to demonstrate the impact of technologies such as cordless telephones, laptop computers and networks based on infrared and radio waves.

In this "cordless office" the furniture is clustered in loose, amorphous groups. This was possible because the design was not constrained by the need for a rigid layout to match the runways of cables under the floor. The furniture is adjustable and mobile. It includes mobile tear-shaped tables, drawer pedestals on wheels, and "bollards" that can be used both as informal seats and to define an individual's territory.

Informal meetings are expected to take place in "eddy pools" and "lay-bys" which are equipped with waist-high ledges for supporting laptop computers and an "acoustic" cloud for privacy.

Some of these ideas are ahead of their time. Most people require better screens and better batteries before they would willingly switch to laptop computers in the office. The disadvantages of cordless telephones include safety concerns and short-lived handset batteries.

But for every critic who feels that designers' vision of the office of the future is too far-fetched, another feels that they do not go far enough. They say that advances in communications technology mean that the case for devoting buildings to offices is no longer self-evident. Relying on a "virtual office" with electronic links to colleagues can cut costs, time and hassle, allowing people to do without physical offices at all.

But a powerful case can be made in defence of offices. There are practical reasons for them: hotel rooms and people's homes are often inadequate. Moreover, the virtual office – although feasible and exciting – lacks humanity, say Raymond and Cunliffe. "People need a symbol of what they belong to, perhaps all the more so when that belonging is no longer for life."

Hand in glove: [illegible]

PARTNERS

Sooty International

[illegible] this year, Gordon [illegible], 43, managing director of Guinness Mahon, [illegible] partners with James Corson, 45, chief executive of Sooty International. The company owns the global rights to the glove puppet devised by Harry Corbett in 1948. They have recently launched a cartoon version of Sooty. Their turnover last year was £1.6m.

Gordon: "James is one of those quietly confident people, not over-brash, or aggressive. His background was in the legal department at Thames Television so he knows how to handle artists as well as business people.

In one of our first meetings he asked me if Sooty should have legs for the animation. I said 'of course', then explained I was the finance man and wasn't about to start making those kind of decisions. It would be a disaster if I involved myself with the creative side.

I concentrate on the company's strategy and leave James to run the operation. If I need to get involved in the running of a company, then the chief executive isn't doing a good job which is certainly not the case here. James is very diligent about keeping me up to date with any financial information. This summer one of the tabloids implicated Sooty in a sex scandal. The story was blown out of all proportion and we were all very annoyed. We saw footage of the puppet show and all Sooty had commented on was some nice-looking women in a Spanish disco. We take his image very seriously, but it wasn't quite bad enough to call a board meeting.

James and I have a proprietorial feeling about Sooty and his friends. You don't pick up something which has a 40-year history and treat it like a Mutant Ninja Turtle.

At our age it's difficult to be obsessed about a glove puppet, but what's important is that we both feel that we're looking after a piece of English heritage."

James: "When we started looking for a financial partner, out of all the suits we saw, Gordon was the one with a sparkle in his eye. Beneath the financier's veneer he had a sense of humour and seemed intrigued by it all.

Of course, there were hard-nosed reasons why he bought into Sooty. He could see the potential in merchandising and animation, and at the same time he understood that Sooty is very much an icon.

He'll often put in his sixpenny-worth of ideas, then retract by saying: 'I'm not creative, you do what's right', yet his suggestions are always relevant. When the theatre side of the business was slacking this autumn, Gordon suggested ideas for a promotional tour which involved newspaper competitions.

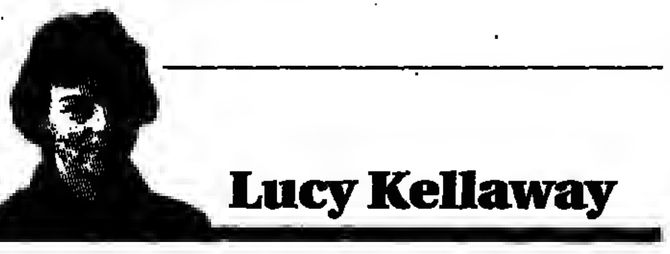
He's genuinely interested, which is one of the reasons I called him immediately when I found we'd been nominated for two television awards.

When I first met him, I expected him to be as dry as a stick and looking at the bottom line, but he's not at all like that. We have to justify our expenditure, but there's no question of stinting. They've invested in excess of £1.5m and are committed to making the project work.

When he comes into the Sooty office the staff drop to their knees and treat him like a god, which is hilarious. Theatre people are great teasers. They might throw a wobbly for no reason just to see his reaction. They like him because he's got the common touch and I hope, they in turn, liven up his day."

Fiona Lafferty

Happy new year, happy new environment



Lucy Kellaway

Take two companies. One believes in empowerment. It is decentralised, informal, freewheeling. The other is more centralised, controlling, hierarchical.

The two companies merge. What happens to the management style of the new group? Given that this is the late 1990s, you might guess that the fashionable, empowered structure would triumph, that the merger would be a way of forcing the more centralised company into the modern age.

You would be wrong. Those two companies are Ciba and Sandoz, and it is Sandoz, the corporate control freak, that is to exert its way of doing things in the merged Novartis.

It would be silly to argue from this one case that empowerment has gone too far, and the clock is starting to turn back to a stricter way of doing things. No corporate model is all good or all bad. Whether it works in any individual case depends on how it has been implemented. However, the Novartis example does show that there may be weaknesses in the new flat model of a company, just as there are strengths in the old one.

First, the more centralised company can move faster. So long as it is not too bureaucratic, its decisions are quicker in the making as they do not need to go through so many phases of worthy consensus. Moreover, empowerment is all very wall when everyone in the company is bright and resourceful. But in most companies most of the people are neither of these things, and many of them may not actually want the autonomy that empowerment gives them. They have no desire to work things out for themselves. They want to be told what to do and then be given a chance to get on with it.

It will be interesting to see how tha empowered employees of Ciba get on in the new year when they find themselves working in a more rigid environment. Some may chafe at the bit. But I would not be surprised if others didn't greet the changes with a great sigh of relief.

Is the public relations industry muscular? The question does not refer to how often PR people go to the gym (which I would imagine these days is fairly often). Instead it refers to how much thay flex their muscles at work; in other words, whether or not they engage in practices which you or I might describe as questionable. The "muscular" euphemism was coined last week by a PR man who was commenting on the court victory of Brian Basham, the PR man in the middle of tha British Airways "dirty tricks" saga. This man was quoted in the FT saying that in public relations things could get "mucky" at times: "There was a place for being fairly muscular," he said.

It goes without saying that he was talking sense. But such is the humbug thet people in PR talk about their work that this man did not want to be named, feeling that his views, even couched in euphemism, would not be popular with his peers.

Corporate PR is a mucky business by its very nature, especially in cases like British Airways and Virgin Atlantic when one company is pitted against another. It is a fight, and in fights people tend to deploy the nastiest weapons they have to hand. There is nothing wrong with thet, but it is good to have a few rules to make sure the battle is reasonably fair. If there is any lesson to be learnt from the Basham case, it is thet the time has come for regulation of the industry. Then those with muscles would know when and how to flex them, and when not to.

If I were Malcolm Gourley, the chairman of Clyde Petroleum, the thing that would upset me most about the hostile bid from Gulf Canada is the president's taste in clothes. Pictured in the FT on the day of the bid, Mr J.P. Bryan was wearing a lemon tie with big pink and spotty pigs grazing on it, while his braces displayed a contrasting scene from the animal kingdom of giraffes and elephants. The message was not subtle: it said "I'm a crazy, fun guy, and I play by my own rules."

In theory people should be able to wear what they like, bnt the sight of him with his hard-as-nails expression wearing this ridiculous garb was not a pleasing one. Often people are advised that they should not dress in a frivolous way because others will not take them seriously.

In this case the reverse is true: the combination of the tie, braces and expression suggeets he thinks himself way superior to the pack.

It does not mean that businessmen should never dress themselves up in joke ties and braces. It is perfectly acceptable – so long as they have just got the top job at Tie Rack.

BUSINESS EDUCATION

Della Bradshaw explains how Britain's business schools fared in the latest research assessments

Funds for thought

Britain's business schools have shown a marked increase in quality research, according to the latest research assessments.

The statistics, published last week, show that of the 96 institutions that participated 26 achieved the top grades – level four or above. When the ratings were compiled four years ago, only 11 out of 83 achieved comparable rankings.

In the face of the inevitable questions about grade inflation, Cary Cooper, chairman of the research assessment exercise panel on business and management studies, is adamant that quality has improved. "There has been a palpable increase in research output and good quality applied research," he says.

Top place in this year's ratings goes jointly to London Business School, Umist in Manchester, and Lancaster University. All received the coveted five-star rating.

Biggest surprise entry among the seven schools in the next tier – those rated five – is Reading University, which chose not to submit material in 1992 because it did no research in the subject. Just 14 members of the management studies group in the department of economics there submitted research papers this year.

Cambridge entered the management rankings for the first time and gained a four rating, while Oxford moved up one notch from three to four.

But it was bad news for the Bradford Management Centre, which dropped in the ratings from five to four – the only one of the top league of schools to fall. The university was putting a brave face on the results, attributing them to the departure of some of their key staff in the run-up to the research assessments.

The ratings are particularly important because on them is based the funding which institutions receive from the higher education funding council. This will be decided early next year and the figure will be calculated using a formula which computes the ratings against the percentage of academics who submitted research papers for assessment. The trick for the savvy business school is to calculate whether it can squeeze more out of the system by submitting research from just the top academics – and therefore getting a good rating – or submitting material from all the staff which would result in a lower rating but a higher head-count.

For those at the top of the list it is the rating which counts, says Ken Peasnell, associate dean for research in management at Lancaster. That determines the international reputation of the school and so the applications from overseas students and faculty. "Research in a business school is a bit like building a brand," says Peasnell.

For LBS the starred five rating, which denotes quality international research, confirms the reputation of the school, says Michael Earl, deputy principal. But it is the publication of research material in international journals which really promotes the school, he says.

Traditional universities will be particularly jealous of the virtuous circle which LBS has established. Unlike management departments in universities, LBS is able to pay internationally competitive salaries and so can draw in some of the best international researchers. Its resulting rating means its will get the biggest slice of the funding cake – this year it received £1.645m from the funding council.

The management school at Lancaster University, by comparison, will have to give much of its hard-earned research funds to subsidise other university departments and, in particular, the university's overspent capital programme, according to dean Stephen Watson.

For some of the more well-known schools the ratings are unlikely to be celebrated. Cranfield, for example, frequently referred to as one of the top postgraduate schools, received just a four rating, submitting research from only about half its faculty. Imperial College also received a rating of four.

Manchester University, which issues MBA degrees for Manchester Business School, also received a rating of four, but reorganisation there means that when the ratings are next compiled, in the year 2000, it will submit a joint application with the highly rated Umist.

University research assessment: business and management

Institution	1996 rating	1992 rating	Proportion of staff selected
Lancaster University	5☆	5	B
London Business School	5☆	5	A
Umist	5☆	5	A
University of Bath	5	3	B
London School of Economics	5	4/5	A
University of Reading	5	-	B
University of Southampton	5	4	B
University of Strathclyde	5	5	C
University of Wales, Cardiff	5	4	B
University of Warwick	5	5	A

Proportion of staff selected: A = 95%–100%; B = 80%–94%; C = 60%–79%

Under the microscope

UK institutions must improve quality controls

Management education provided by Britain's business schools has come under unprecedented scrutiny in recent months from both the research assessment exercise and the Higher Education Quality Council.

The council has been particularly concerned about the way UK-designed courses are taught overseas – specifically in south-east Asia, Spain and Greece – through franchises or partnerships.

A particular worry has been whether courses delivered overseas have been of the same quality as those delivered in the UK.

The pilot audits carried out by the council, the results of which came last week, looked at relationships between 20 UK and overseas partnerships covering a range of subjects, 10 of which related to management education. Three were for MBAs and one for a doctoral programme.

MBA courses, from both the UK and elsewhere, have proliferated particularly in south-east Asia where there is a hunger for higher management education.

The three audited universities providing MBAs were Strathclyde (in conjunction with the Hong Kong Baptist University), Portsmouth (with Koreliko Hellaniou in Greece) and Abertay Dundee (with Caritas Francis HSU college in Hong Kong).

All 20 institutions were warned to scrutinise more thoroughly the courses run under their auspices.

The next business education page will be on January 6

DB

LANGUAGE COURSES

BUSINESS EDUCATION

CONFERENCES & EXHIBITIONS

CONTRACTS & TENDERS

A CHRISTMAS THRILLER

Collateral Damage

A mystery in five parts by thriller writer Peter Tasker. The story so far: Charlie hears that her colleague Piers Montagu, an investment manager, is dead. He had made large and unusual investments. Charlie has two weeks to save Berwick Brothers bank.

Peter Tasker is author of Silent Thunder and Buddha Kiss. He is Japan strategist for Dresdner Kleinwort Benson. His story continues tomorrow and on Friday, with the climax on Saturday. And if you enter our competition you could play a part in the final chapter.

CHAPTER TWO

"Aluminium?" said Charlie incredulously.

"Yes, aluminium. You know, the shiny stuff they make beer cans out of."

Denis Moore, chief investment officer at Berwick Brothers bank, was trying unsuccessfully to hide his agitation. Eton and the Guards had prepared him for many contingencies, but this was not one of them. He leant back in his swivel-chair, his hands fiddling abstractedly with a vicious-looking letter-opener presented by a South American telecoms company.

"And what else?" Charlie prompted.

"Nothing else. That's the whole thing. We probably own a significant portion of the world's entire output."

"Really? In that case we should sell our funds to the Germans and go into the canning business."

"Ha bloody ha!"

Moore flung the letter-opener on to the table. He was suffering from a huge sense of humour failure, for which Charlie didn't blame him at all.

"Can't we get rid of the stuff and take our money out?"

"Not so simple, I'm afraid. Only the directors of these blastad companies can do that."

"And who are they?"

"That's what's really worrying. They're totally anonymous, hidden behind some trust that's been set up in Lichtenstein. It's a mess, Charlie, a bloody mess."

Moore's face was the colour of the river on a stormy day. He looked as if he'd aged five years over the weekend.

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Back at her desk, Charlie considered the facts.

Using a daisy-chain of companies registered in the Cayman Islands, Piers Montagu had managed to invest half a billion pounds of the public's money into positions on the aluminium market. It was a crazy strategy, risky beyond belief, but also highly sophisticated. That was what was most surprising about it.

At lunchtime, Charlie took Natasha to a wine-bar and plied her with vodka-and-orange. As previously arranged with the waiter, her own gin-and-tonics contained no more than a teaspoonful of gin. It took Natasha two drinks to become melodramatic, four to become confessional, and six to become maudlin.

"So when did you and Piers stop seeing each other?"

"We saw each other every day at work, of course."

"No, I mean when did you stop sleeping together?"

Natasha smiled tearily. "We never slept, darling. I can assure you of that."

Charlie had to put up with a fair amount of this, but the effort was worthwhile. She learnt that the affair between Piers and Natasha had continued sporadically right up until his death. More important, Natasha had noticed nothing strange about his recent behaviour at all.

"Do you think it could have been suicide, Natasha?"

Natasha dabbed at a mascara-trail with her lace handkerchief. "A man like Piers? Impossible! In Moscow University, there were poor boys who killed themselves for all sorts of reasons. They were too sensitive to live in this world."

"Not like Piers, eh."

"Piers was an egotistical animal," said Natasha with a shudder.

"And that's what attracted you, I suppose."

Natasha gave a peal of laughter loud enough to be heard outside. "How did you guess?" she said.

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Back at the office Charlie decided to go through Piers Montagu's desk diary with a fine-tooth comb. The only problem was she couldn't find it anywhere. There was nothing in his desk except for a Walkman containing an Oasis cassette, two grey files and a sheaf of analysts' reports. The first file was full of clippings – from Investors Chronicle, Business Week, Der Spiegel, and so on – in which Piers' own name had been highlighted with a yellow marker. In the second was a single scrap of paper covared in Piers' familiar scrawl.

"The smartest monkey gets the ripe persimmon," read Charlie. And under that "the sharpest monkey gets the ripe banana". And under that "the toughest monkey gets the fattest ricecake". Now that really was sad. Even Piers' spontaneity had been rehearsed.

In the pencil tray was a thin black tube. According to the label, it was "Jojoba-based Isotonic Lip Balm", and came with the compliments of Nippon Airlines, Shogun class.

That jogged Charlia's memory. She called the accounts department and asked them to send up copies of the expense claims from Piers' most recent business trips.

The results were interesting. Apparently, Piers had spent five days in Tokyo just two months ago. Yet according to the portfolio print-out, he owned no investments in

> It was hard to concentrate on anything when you were sitting on a cache of financial Semtex

Japan.

Charlie recalled that Piers had worked in the Tokyo market for a couple of years in the late 1980s – no doubt stuffing his clients full of stock at the very peak of the Nikkei index. Maybe he had stopped over to meet old friends. Or maybe it was something more significant.

Piers' wife Susan would have the details of where he had been staying. She probably had the missing desk diary too. But would she be prepared to say anything after the scene she had made at the funeral?

Charlia picked up the phone. The voice at the other end was male, elderly. It took Charlie a few seconds to realise that it was Susan's father.

"You're a couple of hours too late, I'm afraid. Susan flew out this morning to New York."

"Can I get in touch with her?"

"Sorry. She left strict instructions that she's not to be disturbed."

"I understand," said Charlie flatly.

So no desk diary, no information, no progress at all.

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Charlie spent the rest of the afternoon fiddling with the Swedish bond position and leafing through contradictory reports on the outlook for British Biotech. It was hard to concentrate on anything when you were sitting on a cache of financial Semtex that was primed to destroy the whole bank.

Two hundred years of history, from 18th century coffee-house to hi-tech dealing room: surviving the Argentine default of the 1890s and the shipping disaster of the 1970s; staying independent through the Big Bang; steering clear of Maxwell, Polly Peck, and the rest. All that to be ended by Piers Montagu's structural stupidity.

Charlie cleared her desk at six o'clock and went to dab on some lipstick. Tonight, one of the big brokers was hosting a dinner for a Labour party spokesman on economic affairs. Listening to his views on the PSBR should at least put that missing half a billion into perspective.

While retrieving her coat from the antique cabinet outside the dealing-room, Charlie noticed an sxpensive-looking sports bag half-hidden among the umbrellas and scarves. Recently, Piers had taken to working out at the sama sports club that Will Carling used.

Tha bag itself contained deslgner sports wear and various male sprays, gels, and body lotions, but in the side-pocket Charlie found a mobile phone. It was the model that the bank supplied to all senior staff, supposedly just for work purposes. Piera bad three numbers registered in the memory. Charlie recognised the first two – the dealing-room ewitchboard and Natasha's flat.

The third was another central London number. She pushed the call hutton.

"Hello, this is Naomi Sawaguchi."

Rather hesitant English, but a nice light voice. Probably another one of Piers' multi-national conquests. Charlie rang off without saying anything.

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New Labour, new hair-style. The glossy houffant had been trimmed and tamed, probahly in response to focus group analysis of some sort. Could they not do something ahout the teeth too? File off a quarter-of-an-inch, for example? The man still smiled like a gym-teacher from hell.

"People are broadly satisfied with Tory policies, hut they've had enough of the Tories themselves. They make everyone feel ugly and mean-spirited.

"That's what gives us our Unique Selling Proposition – vote for us and it'll make you feel better."

The infernal gym-teacher didn't use those actual words, but that was the gist of the mellifluous chin-music that was filling the air.

Charlie let herself be lulled by the cadences while she considered her next move. The Far East connection needed to be explored further. For example, Piers might have given this Naomi Sawaguchi some idea of what he had been doing in Japan.

"It worked for Clinton and it's working for us. Of course it means we have to talk a load of sanctimonious tosh, but don't be misled by that. We're not going to change anything important. That's the other half of the USP: we don't cost you anything at all."

Who knows – Piers might even have taken her with him. It would be just like him to have a dirty fortnight at the bank's expense. It was certainly worth following up.

"Sure, we still have a few troglodytes on hoard, but they're strictly for entertainment purposes. Slapping them down from time to time shows how responsible we've become. Rest assured, we're going to be very good for gilts. Much better than the Tories, in fact."

After another 10 minutes of this, the man sat down to rapturous applause. Charlie took the opportunity to make a quick exit.

Outside, the streets were still jam-packed with shoppers. Charlie waited until she got home before calling the number again.

"Naomi Sawaguchi?"

"Yes, that's right."

"My name is Susan Montagu, the wife of Piers. You are aware that my husband is dead, aren't you?"

There was silence. What

> It was an unusual time and an unusual place for a showdown with your lover's wife

was the woman feeling? Guilt? Sympathy? Charlia hoped it was the latter.

"Piers mentioned your name to me," she pressed. "It would mean a great deal if we could meet. There are a few matters I want to clear up."

More silence. Then, in an even quieter voice: "Yes, of course, Mrs Montagu. I think we should meet as soon as possible."

As soon as Charlie put down the phone, Amos walked in from the kitchen carrying a bottle of champagne and two glasses.

"Are we celebrating something?" said Charlie.

"My first exhibition in this country," said Amos. "There's a gallery in Scotland that wants to show my work. The curator called this afternoon."

He was smiling a beautiful smile, so innocently proud. Charlia hated to disappoint him.

"Amos, I have to rush out again. We'll have a real celebration when I get back. Something very special."

Why was it that she found herself saying that last phrase in a Russian accent?

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Naomi Sawaguchi must be an unusual person, thought Charlie as she walked ont of the Tube station. Certainly 10pm was an unusual time for a showdown with your lover's wife. And St Martin's Church was an unusual meeting place too.

It was a dark cold night, and there were few people on the streets. Charlie flinched when someone came running up behind her. It was a large thuggish man with a large thuggish dog, hoth of them panting hoarsely as they pounded past. Hadn't some poor woman been knifed to death in the park just down the road? And that was in broad daylight. Charlie thrust her hands deep into the pockets of her sheepskin coat and quickly turned the corner. Ahead of her was the hulky silhouette of the church.

They were supposed to meet in front of the large wrought-iron gate. Stamping her feet to keep warm, Charlie listened to the bell booming 10 times. Clearly Ms Sawaguchi was not one for punctuality.

The street was deserted except for a gruhby white van parked on the other side. Charlie strained her ears for the sound of footsteps, but all she could hear were a couple of cats yowling in the distance.

She peered through the gate at the ontline of the steeple. It was an impressive building, reminding her of a noval she had once read about the architect Hawksmoor.

She was just turning away when she saw a movement right in front of her. With a shock, she realised that someone was standing in the shadows of the main entrance.

"Hello there," she called out, sounding more confident than she felt. "Is that Naomi Sawaguchi?"

The figure disappeared into the interior of the church. It was indeed a woman, though the gloom was too intense to make out her features.

Charlie called out: "Wait a moment!"

This Naomi was a strange character – violently jealous, perhaps. Still, having come this far, Charlie wasn't going to turn round and go home. The gate groaned shut behind her as she walked down the gravel path.

At the half-open door of the church, Charlie stopped to let her eyes adjust to the gloom. It was like entering a cinema just before the film starts.

Finally she made out a figure hunched at one of the pews, apparently waiting for her. She stepped inside, and felt a presence right next to her. Before she had time to respond, there was a hand clapped over her mouth, pulling her hackwards, downwards.

She twisted and kicked, but this was a strong man.

Two of them in fact, since someone else had seized her ankles and was lifting her off the ground.

She beard them hreathing hard, regularly, as if they were used to the effort.

"Hey, what's going?"

The hig hand was lifted, replaced immediately hy a gag. Then a bood was dropped over her head, tied

> And then there was a ferocious growling and snarling all around her. Charlie fell to her knees

in place, and for the first time Charlie was scared. That woman in the park – hacked to pieces for no reason at all.

But these men were acting as if they *did* have a reason. And they were not hacking her to pieces, not yet anyway. Instead they were grabhing her hy the elbows, hauling her down the path.

The gate groaned shut again, then they were crossing the road. A car door opened. Yes – it had to be the gruhby white van.

They tried to plck her up again, hut this time Charlie kicked out. She felt her toecap crunch against bone, then there was a grunt, followed by a shout in the distance.

"Oi! What's all this?"

And then there was a ferocious growling and snarling all around her. Charlie fell to her knees and rolled clear.

Behind her, she heard the van's engine kick into life, the tyres screech. She got to her feet, tugging frantically at the hood.

"Let me 'elp you with that."

Someone was undoing the cord, sliding the hood off her head. Suddenly Charlie found herself blinking into the face of the large thuggish jogger, his large thuggish dog panting hy his side.

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There was no special celebration for Amos that night, but he was sweet enough not to say anything. Charlie lay awake for hours, tossing and turning. Every time she closed her eyes she felt as if a hood were being dropped over her head and her pulse started racing.

Next morning she woke up earlier than usual. She put on a scarf to cover her bruised neck, kissed Amos's sleeping fsce, then went straight to the office.

As she had expected, there was no reply from Naomi Sawaguchi's number. Fortunately she managed to bluff someone at the Japanese embassy into giving her some help.

"You have a message for Mrs Naomi Sawaguchi? You mean the wife of Mr Ichiro Sawaguchi?"

"Yes, I think that's right."

"Wa can't disclose a private address, bnt Mr Sawaguchi should be contactable at his place of work."

"That'll do fine. Could you give me the details please?"

"Certainly. Mr Sawaguchi is employed at the UK office of Mitsukawa Corporation. He's chief of the metals trading department."

That was soon confirmed by a commodities analyst at an Australian bank. "Sawaguchi? The fellas in the market call him 'the ninja of non-ferrous metals'. In fact, these days, he more or less is the aluminium market!"

For some reason Charlie had a vision of a pyramid of gleaming beer-cans reaching up to the heavens.

... TO BE CONTINUED

Tomorrow: Charlie is in danger. Don't miss Collateral Damage tomorrow, Friday and Saturday

All characters and companies in this novella are fictitious.

The Competition

The Last Word

Finish off Collateral Damage by suggesting a more fitting ending for the Peter Tasker thriller. Pit your wit against that of the author by bettering his final line, which will be an old-style saying with a new twist, for example:

'When the year grows cold, we know the pine and the cypress are the last to fade' — *Confucius*

'It never troubles the wolf how many the sheep be' — *Virgil*

'It is the wisdom of rats, that they will be sure to leave a *house* somewhat before it falls' — *Francis Bacon*

'Tax is not a burden to the wise man – he has a clever accountant' — *Piers Montagu*

The challenge is to come up with a saying that is a modern take on that old format.

Details of how to enter will be published in the FT tomorrow and on Friday, December 27. By reading each instalment, the observant reader will have a better sense of how it all may end.

The five funniest, original entries will receive an FT hamper hand-picked by its specialists: bottles of red and white wine chosen by Jancis Robinson, the FT's wine writer; the fiction and non-fiction books of the year, as judged by Annalena McAfee, literary editor; a classical and a popular CD selected by our music writers; and a couple of good taste goodies chosen by Lucia van der Post, How to Spend It editor.

ARTS

OPENINGS

The Nutcracker is everywhere, like the common cold, like Christmas cards from people you have forgotten, like expensively-lit tableaux objects in shop windows. If you are in London or Paris or New York or Vienna or Edinburgh, or Oslo, or Stockholm or Nice or Toronto or – quite possibly – the depths of despair, there it is. Productions vary, the Tchaikovsky score does not. You can't beat it, so join it – and take the kids.

NEW YORK Andrew Davis returns to the Metropolitan Opera tonight to conduct a Christmas revival of Humperdinck's Hänsel und Gretel, with a cast headed by Dawn Upshaw, Jennifer Larmore and Marilyn Zschau. The Met's repertory over the holiday period also includes Tosca starring Carol Vaness.

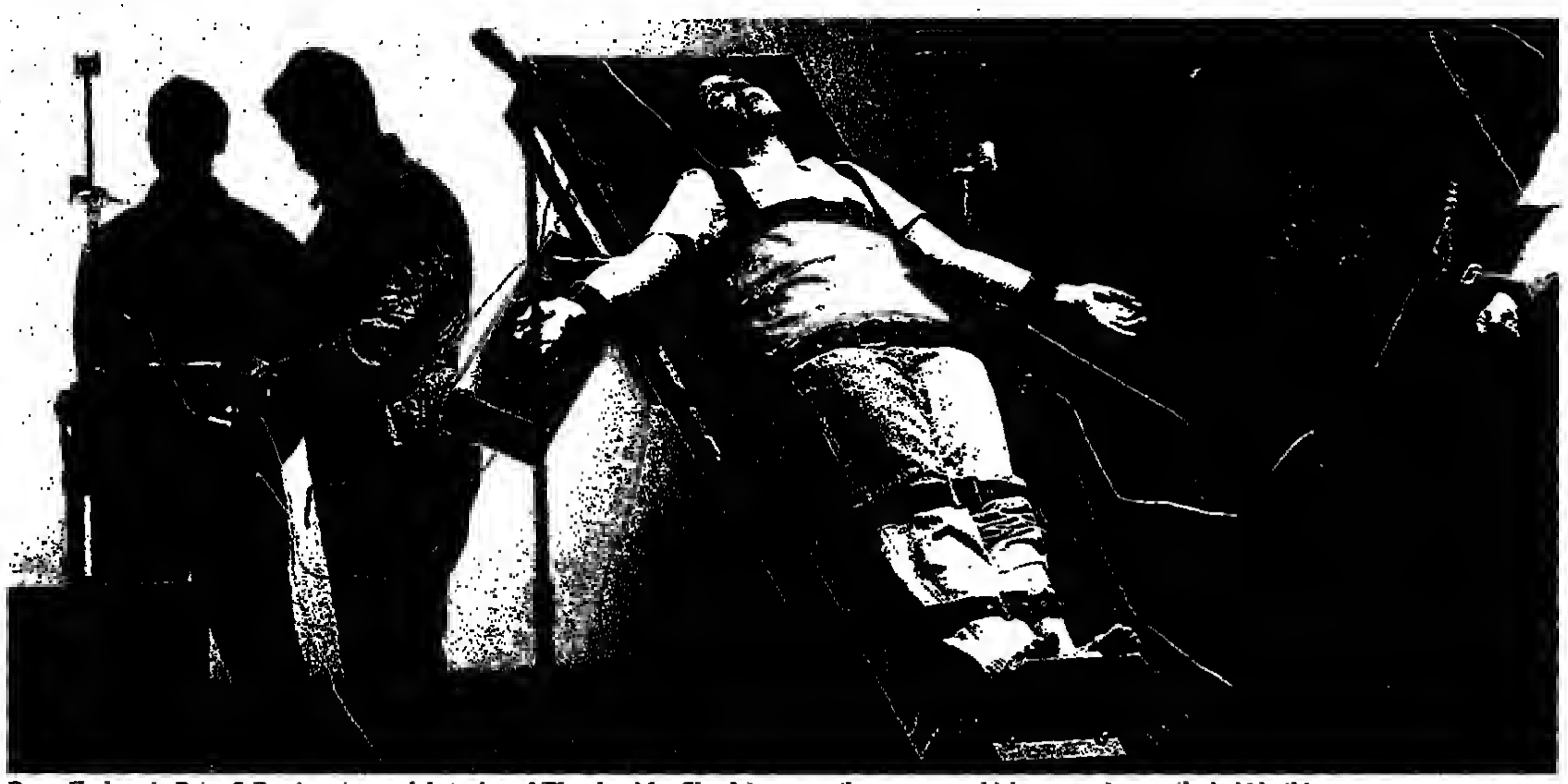
VIENNA Riccardo Muti (right) proved an exceptionally subtle conductor of Viennese waltzes when he presided over the Vienna Philharmonic's New Year concert in 1994. His preeminent position in the orchestra's affections is confirmed by his return to conduct another Strauss programme on New Year's Day 1997. The Staatsoper and Volksoper also turn to Strauss (below, right) for their New Year celebrations – with performances of Die Fledermaus on New Year's Eve and New Year's Day in both theatres.

BERLIN Bryn Terfel (right) is the star attraction of the Berlin Philharmonic Orchestra's year-end concerts in the Philharmonie. He will sing Lieder by Brahms and Schubert on December 30 and 31, in a programme conducted by Claudio Abbado.

EDINBURGH The National Gallery of Scotland's annual display of watercolours by J.M.W. Turner starts on January 1 and runs till the end of the month. The 38 paintings, bequeathed by Victorian art collector Henry Vaughan, are only ever shown in January, when the light is least likely to fade the images. The Vaughan bequest includes examples from every period of Turner's development, and the display has been expanded to include other Turner watercolours acquired more recently.

LONDON A week tonight, Jessica Lange (right) makes her West End debut as Blanche Dubois – in Tennessee Williams's classic *A Streetcar Named Desire* – a role which she has already played on Broadway. The London production is directed by Peter Hall at the Haymarket, Theatre Royal; co-starring are Toby Stephens and Imogen Stubbs.

The Royal Opera's production of Massenet's *Chérubin* was a big success when it was first performed in 1994. It returns to the repertory on New Year's Day, with American mezzo Susan Graham once again in the title role. John Eliot Gardiner conducts.



Dawn Upshaw in Peter Sellars' controversial staging of 'Theodora' for Glyndebourne – the company which can crack open the bubbly this seaso

Alastair Muir

Opera in 1996/**Richard Fairman**

Elitist image loses its fizz

Is opera for the people or not? This could have been the year that the issue was settled in favour once and for all, but as fast as progress is made towards breaking down the image of an art form for the toffs, an anti-opera force seems to gain momentum heading the other way.

So long as the arts were funded from general taxes, nobody took much notice of how the money was spent. But overnight the lottery changed all that. 1996 began with the arts fraternity in Wales still reeling from the news that Welsh National Opera's lottery bid for a new opera house had been turned down. This was the first backlash from the turn in public opinion. The tabloids barked their delight. "Lotto Lord Clotto Has Gotto Go", ran a headline in The Sun, as it prepared to sink its teeth into the Arts Council's hapless Lord Gowrie.

The trouble is that the people who claim to be popularising opera are making such a bad job of it. The phenomenal success of the Three Tenors, which might have led to a new audience for opera, has been frittered away. The ageing trio set out again this year, hawking their money-making bandwagon around the world. Ticket prices started at £25 and went up to £1,000; programmes cost £10. Having been soaked for their cash, the audience at London's Wembley Stadium was then drenched by a downpour. Is this opera for the people? I think not.

Nor was the "popular" production of *La Bohème* at the Royal Albert Hall any better. Radio and TV commentators jumped on anybody who dared criticise this show, as though they were part of some anti-popularist cabal. The truth was that the performance was mediocrely sung, poorly played and horribly amplified, and all for the sama price as a good evening at English National Opera. Who needs consumption, when there are so many other ways to kill off Puccini's poor Mimì?

Unfortunately, the *bona fide* opera companies still have an image problem. How about a TV documentary to show an opera house is just another happy family? No, thank you, Sir Jeremy. Not after yours this year. For six weeks the nation sat enthralled by *The House*, BBC2's fly-on-the-wall series filmed at Covent Garden. Washing one's dirty linen in public invariably turns out a public relations disaster, but the Royal Opera House went straight out and hung its knickers on the line anyway.

We watched tantrums, back-biting, squabbles and crises with mounting disbelief. There was even an operatic anti-hero in the company's steel-tipped director of corporate affairs, whose performance as the backroom Iago of Bow Street made him a star in his own right. However, the crises actually in train during 1996 were far worse than anything shown in *The House*.

At least we know who is going to be in charge. When the outgoing Sir Jeremy Isaacs retires, his place will be taken by Genista McIntosh, at present executive director at tha National Theatre. Any similarity to Chekhov is purely accidental: it just happens that she will be joining a gloomy aristocratic family facing eviction and preparing to move they know not where. Meanwhile, archaeologists discovered a Viking settlement during excavation of the Opera House plot next door.

Let us hope that the Norse gods have not been roused into ire by the irreverent shenanigans in the Royal Opera's controversial new *Ring* cycle. Inflammatory stagings are making a growing inroad at Covent Garden, though not without some resistance from audience and artists. Two-for-the-price-of-one offers for the *Ring* showed it is a myth that Wagner always sells; and the conductor Edward Downes walked out of the outlandish production of Verdi's *Nabucco*, because he felt "out of sympathy" with it.

Artistically, the company has embarked on the long *diminuendo* that will lead to the period of closure. The 1995-96 season of plenty – a decent try at Tippett's *The Midsummer Marriage* and the ambitious second annual Verdi festival, which included an enthralling new version of Verdi's *Don Carlos* in French and the first ever Covent Garden production of *Giovanna d'Arco* – has given way to the 1996-97 season of famine. There were no new productions left in the second half of the year at all. Tha accountants know the score and the Royal Opera will be playing to their tune.

Despite its best efforts, even the English summer could not ruin this year's season et Glyndebourne. The festival opened on what must have been one of the coldest May evenings ever to have been recorded, forcing determined picnickers to huddle together in near freezing conditions – no need to chill the champagne. Inside, the temperature was a good deal higher, as tempers boiled over at Peter Sellars' extreme revision of Handel's *Theodora* as an anti-American, anti-capital punishment tract. Some critics were left spellbound, while others seemed to wish the death sentence had never been abolished.

With its mixture of hits and misses – a dull *Lulu* that turned Berg's sex-and-death crazed heroine into the girl-next-door; and two new productions that made up for their shortcomings by hitting musical standards at the highest international level – this may not have been one of Glyndebourne's top 10 seasons, but it was undeniably a brave one. To achieve 100 per cent attendance for a programme that featured Berg, Handel, a rare Rossini *opera seria* and off-beat Strauss is reason enough for the festival to toast itself with any left-over bottles of bubbly.

In London, English National Opera continued to put the low point of the recession years slowly behind it. It has been an *echt*-German year: a colourless *Salome*, an intellectually keen *Fidelio*, a concentrated *Tristan und Isolde* and – ambitiously in these difficult times – two modern German operas, Henze's *Der Prinz von Homburg* and Zimmermann's hugely taxing *Die Soldaten*. It seems somebody is keen for ENO's audience to be fed on a diet of *Wurst*.

It is a shame that the sole non-German new production – Jonathan Miller's staging of *La Traviata* – should have been such a damp squib. Hopefully, the appointment of Paul Daniel, who takes up the baton as music director with effect from next season, should be a step towards forging the convincing artistic game-plan that has been missing so far. So, when it comes to deciding on its home for the future, let's hope that ENO does not get bewitched into letting the lottery genie out of the lamp: "new theatres for old!"

As there are not many opera-conducting jobs in the UK, a gain in one place often means a loss somewhere else. Opera North, based in Leeds, will be sad to say goodbye to Daniel. His tenure has been a period of continued exploration. The rarest discovery on this year's expedition was a production of Weill's little-known *Love Life*, though the production was thought to lack "showbiz savvy". Cherubini's original version of *Médée* had more of that, when tragic grandaur might have been more appropriate. Gluck's *Iphigénie en Aulide* was trivialised. But at least their existence has been charted by a professional company.

Sometimes one wonders how the smallest companies keep going at all. Glyndebourne Touring Opera at least is on a secure footing now and felt confident enough to take the festival's highly disputed *Theodora* with it out on tha road.

Almeida Opera showed encouraging signs of life with one of its best seasons so far, including a pair of one-act operas by Param Vir. The first UK production of Tchaikovsky's *The Enchantress* at the Brighton festival failed to enchant anybody at all. More important was the large-scale Birtwistle retrospective on the South Bank, which featured the composer's many-faced *The Mask of Orpheus*.

After a perilous financial time in 1995, there must be relief all round that Scottish Opera is still afloat. Scottish pride should have been satisfied by a strangely appealing *Hänsel und Gretel*, a dignified *Alceste* (Gluck) and a spare *Idomeneo*, which concentrated attention on Mozart's music. If not, there was the premiere of a genuinely Scottish opera in James MacMillan's *Inés de Castro*, which excited the local audience, but left visitors from south of the border unconvinced. One English critic denounced it with a venomous cry of "That is pornography!"

A new opera was also one of the highlights of Welsh National Opera's 50th anniversary season. No pornography there, just a good story well told in Maxwell Davies's *The Doctor of Myddfai*. Maybe the healing powers related in this Welsh myth helped to unite the company after the disappointment of losing its lottery bid for the ill-fated Cardiff Bay Opera House. Despite a production of Gounod's *Faust* that deserved to be consigned to hell forthwith, this was a good year. There was a marvellously perceptive *Don Giovanni* and a near-miss with Stravinsky's *The Rake's Progress*, starring Welsh patriot Bryn Terfel, who threatened a boycott if WNO did not get its lottery dues.

The company deserves it, if it is going to put on opera as thrilling, as moving, as passionate and involving, as its new production of *Cav* and *Pag*, the verismo twins. This was for me the best single night at the opera in 1996. Yes, it may seem amazing, but that is where truly popular opera is to be found – in the opera house.

Theatre

Dickens and other carols

Neil Bartlett has turned *A Christmas Carol* into a Christmas show for, ideally, 8-to-11-year-olds, though it will please many of their parents too (not least because it takes well under two hours). Dickens is still credited with the authorship, on the grounds that the story and the words are all his; but of course the story is told schematically, and the words reduced to a fraction of the original text. Yet it makes a very pretty stage tale, and in Richard Briers' Scrooge it boasts a treasurable ornament.

Bright costumes and simple coloured props stand out against a black background, with fairy lights and clusters of wintry stars. The idiom is "physical theatre", with stylised movement and gesture carrying much more of the weight than settings or the occasional flash of stage trickery. Apart from Briers, the other seven actors play innumerable roles ("A Third Fat Businessman", "A Small Fire", "The Bells of the City of London (St. Giles)": each and every one a simple cartoon, necessarily, but generally in the right spirit and sometimes deft.

This is a thoroughly pc company, by the bye – colour-blind, accent-deaf and gender-unreliable. One need have no problem with that, though where a Tiny Tim *en travesti* goes down easily a female Jacob Marley does seem a bit gratuitous. The show has no purpose-written music. Instead, some of the cast burst into familiar carols (neatly harmonised, sometimes) at any halfway-plausible hint in the script or the current situation. Nobody actually sang along, because each carol breaks off after a line or two or at most three; but these friendly musical echoes somehow become a vital strand of the show.

In the middle of it Briers creates a remarkably touching Scrooge before our eyes, with mere shreds of text to help him along. From his robustly crusty old brute at the start, disdaining any cuddly, mock-secret lovability, he grows anxious and bumbly earnest while the minatory Ghosts come and go, and rises at last to an all-embracing childlike wonderment. It is a lovely and quite unforced performance. It is an uncomplicated show, mind! – not primarily intended for grown-ups; but parents, godparents, aunts or uncles who find themselves hauled along may discover Briers' luminous Scrooge lodged in their minds for a long while to come.

David Murray

At the Lyric, Hammersmith, London W6 to January 18.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-6718345
● Pagliacci: by Leoncavallo. Concert performance, conducted by Ricardo Chailly and performed by the Koninklijk Concertgebouworkest and the Choir of the MDR, Leipzig. Soloists include the tenors José Cura and Francesco Piccoli, soprano Cristina Gallardo-Domas and the baritones Juan Pons and Angelo Veccia; 2.45pm; Dec 25
De Nieuwe Kerk
Tel: 31-20-6268168
● Gustav Leonhardt and Bernard Winsemius: the organ-players perform works by Bruna, Marchand and J.S. Bach; 3pm; Dec 25

■ ATHENS

CONCERT
Athens Concert Hall
Tel: 30-1-7282333
● Orchestra of the Friends of Music; with conductor Alexandros Myrat, harpist Maria Bildea, violinist Leonidas Kavakos, cellist Renato Ripo, pianist Péter Nagy and the Fons Musicalis Choir perform works by Britten, Holst and Beethoven; 8.30pm; Dec 25, 26

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Berliner Virtuosen: with conductor Manfred Scherzer, violinist Katrin Scholz and flautist Susanne Erhardt perform works by J.S. Bach, Corelli and Vivaldi; 8pm; Dec 25
● Camerata Musica: with conductor Manfred Roost, organist Joachim Dalitz, harpist Marion Hofmann, pianist Jan Olberg and the Rundfunk-Kinderchor Berlin perform works by Rheinberger and others; 4pm; Dec 25

OPERA
Deutsche Oper Berlin
Tel: 49-30-3438401
● Die Meistersinger von Nürnberg: by Wagner. Conducted by Christian Thielemann, performed by the Deutsche Oper Berlin. Soloists include Eva Johansson, Ute Walther and Wolfgang Brendel; 5pm; Dec 25
● Hänsel und Gretel: by Humperdinck. Conducted by Hans Hilsdorf, performed by the Deutsche Oper Berlin. Soloists include Carol Wyatt, Abbie Furmansky and Gerd Feldhoff; 6pm; Dec 26
Staatsoper Unter den Linden
Tel: 49-30-20354438
● Die Zauberflöte: by Mozart. Conducted by Asher Fisch, performed by the Staatsoper Unter den Linden. Soloists include Blanck, Williams, Eisenfeld, Lang and others; 7pm; Dec 25, 26

■ CHICAGO

EXHIBITION
Art Institute of Chicago
Tel: 1-312-4433600
● Building for Air Travel: Architecture and Design for Commercial Aviation: exhibition focusing on the history and state of the architecture and design of the airline industry. The exhibition, presented in an installation devised by Chicago-based architect Helmut Jahn, features original drawings, architectural models, cut-away models of aircraft interiors, and other objects; to Jan 5

■ FLORENCE

DANCE
Teatro Comunale
Tel: 39-55-211158
● The Sleeping Beauty: a choreography by Anna Maria Holmes after Marius Petipa to music by Tchaikovsky, performed by MaggioDanza and the Orchestra del Maggio Musicale Fiorentino; 3.30pm; Dec 24

■ LEIPZIG

CONCERT
Gewandhaus zu Leipzig
Tel: 49-341-12700
● MDR Kammerphilharmonie: with conductor Heinz Rögner, cellist Rodin Moldovan and the MDR Kinderchor perform works by Nicolai, Cornelius, Reinecke, Humperdinck and Tchaikovsky; 7.30pm; Dec 25

OPERA
Oper Leipzig
Tel: 49-341-1261261
● La Traviata: by Verdi. Conducted by Jiri Kout, performed by the Oper Leipzig. Soloists includa Yi Ping Li, Annelott Damm and Santiago Calderon; 6pm; Dec 25

■ LONDON

CONCERT
Royal Albert Hall
Tel: 44-171-589 8212
● London Concert Orchestra: with conductor Philip Simms, tenor Bonaventura Bottone, trumpeter Crispian Steele-Perkins, reader Neil McCaul, the Thomas Tallis Choir and the Trinity Boys Choir perform Christmas carols; 7pm; Dec 24

JAZZ & BLUES
Purcell Room
Tel: 44-171-960 4242
● Nat, Beryl and Digby's Jazz Legends Christmas Party: an evening of rhythm and blues, jazz and Dixieland hosted by Digby Fairweather and featuring his new band Dig's Half-Dozen, Beryl Bryden and Nat Gonella; 7.30pm; Dec 26

■ LOS ANGELES

EXHIBITION
The J. Paul Getty Museum
Tel: 1-310-459-7611
● The Making of a Hero: Alexander the Great from Antiquity to the Renaissance: this exhibition of 15 works from the museum's collections of antiquities and illuminated manuscripts explores the representation of this legendary conqueror. It examines the creation of the heroic, mythical Alexander the Great (356-323BC) in the visual arts of classical antiquity and the Middle Ages as well as the attempt in the Renaissance to reconcile that hero with the newly discovered historical figure; to Jan 5

■ NEW YORK

CONCERT
Carnegie Hall
Tel: 1-212-247-7800
● New York String Orchestra: with conductor Jaime Laredo perform works by Corelli, J.S. Bach, Vivaldi and Dvořák; 7pm; Dec 24

EXHIBITION
The Pierpont Morgan Library
Tel: 1-212-685-0008
● Seeking the "Splendid Mystery". Presidential Races from Washington to Truman: this exhibition offers an overview of presidential elections in the US from George Washington to Harry S. Truman. Campaign pamphlets, broadsides, engravings and private letters document the history of American elections. The exhibition also traces the development of political parties; to Jan 5
Whitney Museum of American Art Tel: 1-212-570-3600
● Nan Goldin: I'll be your Mirror: a retrospective of photographer Nan Goldin (b. 1953), whose raw and intimate work has become a signature of the sexual and cultural urban underground of the past two decades. On view are portraits, self-portraits, landscapes and interiors taken over 25 years in cities including New York, Boston, Berlin, Tokyo, Bangkok, and Manila; to Jan 5

■ PARIS

EXHIBITION
Centre Georges Pompidou
Tel: 33-1-44 78 12 33
● Luciano Fabro: exhibition featuring a selection of works by the Italian "Arta Povera" artist Luciano Fabro (b. 1936); to Jan 6
Musée d'Orsay
Tel: 33-1 40 49 48 14
● Charles le Coeur (1830-1906), architecte: exhibition focusing on the work of the French 19th-century architect Charles le Coeur; to Jan 5

■ VIENNA

OPERA
Wiener Volksoper
Tel: 43-1-514442960
● Hänsel und Gretel: by Humperdinck. Conducted by Bertrand da Billy, performed by the Wiener Volksoper. Soloists include Holzmayer, Pavelka, Steinberger and Kozena; 4.30pm; Dec 25

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Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Condemned as a parasite

Guinea worm, which was once the scourge of millions, is close to extinction, says Clive Cookson

GOOD NEWS

The guinea worm goes to greater lengths than most human parasites to propagate itself. It grows up to a metre long inside the body before pushing through the skin like a small white snake or piece of spaghetti. This forces its human host to seek relief from the intolerable pain by immersing the limb in water, where it disgorges thousands of tiny larvae to find new hosts.

Guinea worm disease, or dracunculiasis, afflicted some 3.5m people in 1986, mainly in tropical Africa with some in south Asia. But health workers believe it will be extinct before 2000, after an eradication campaign that has cut the number of cases to an estimated 100,000 this year.

Guinea worm is almost extinct in Asia: a cluster of remote villages in Rajasthan, India and Yemen are still infected. In Africa, three-quarters of the remaining cases are in southern Sudan, where the civil war is hampering the eradication programme.

"We need another ceasefire there," says Dr Don Hopkins, one of the campaign's leaders who works for the Carter Centre, the charitable foundation set up in Atlanta by Jimmy Carter, the former US president. "Outside Sudan, we should be able to finish off guinea worm within a couple of years."

He adds: "This is a terrific success story for the people of Africa. It means that more than 3m people a year, who would have been seriously ill for at least a month around harvest time, are now free of disease."

If dracunculiasis can be wiped out, it will be the second disease to be eradicated in human history. The first was smallpox in the 1970s.

The campaign was feasible because the giant guinea worm and the microscopic smallpox virus have one common feature: unlike many other infectious organisms, they have no "animal reservoir" – their reproduction depends on people. So if the chain of human transmission is broken, the disease can be eliminated.

But the two campaigns have been totally different. Whereas smallpox eradication depended on vaccination, no vaccine or drug is known to act against guinea worm. Instead, this primitive creature must be squeezed out of the human chain.

Dracunculiasis can be contracted only by drinking water containing the parasite's secondary host, a tiny water flea called cyclops, which is itself infected with guinea worm larvae. Inside the drinker's stomach, cyclops dies and releases the microscopic larvae.

The larvae quickly grow inside the human intestines and after a few months the mature worms mate. Then the males die, while the females migrate down the body, still growing. They usually emerge from extremely painful blisters in the lower legs and feet.

At this stage the uneducated victim seeks relief by plunging into the village pond – whereupon the worm discharges its larvae into the water. These are eaten by cyclops, and the cycle starts again.

Sandy Cairncross

Flea filter: a health worker removes cyclops

The first step in breaking into this cycle is to convince villagers that the disease has nothing to do with witchcraft and other forces beyond their control. That means explaining how it propagates itself, and then persuading victims to stay away from any source of drinking water.

"The campaign shows it is possible through health education to change ideas of socially acceptable behaviour," says Dr Hopkins. "Now people resist going down to the water hole and soothing their burning foot."

Dr Philippe Ranque, head of the World Health Organisation's dracunculiasis eradication unit, says the traditional technique of extracting the worm is still best. "The worm is wound carefully around a small stick, a few centimetres per day, until its hook-shaped end extremity appears." Provided the victim has access to antiseptic lotion, infection can be avoided.

Chemical treatment of water sources to kill guinea worm larvae has been useful for eradicating the parasite in Asia, where water tends to come from wells and cisterns. But it is not much use in muddy African ponds, says Dr Sandy Cairncross, a dracunculiasis specialist at the London School of Hygiene & Tropical Medicine. "Cloth filters and health education, carried out by village health workers, are getting rid of guinea worm in Africa."

Originally, the cloths used to filter cyclops from contaminated water before drinking were made from local cotton. But the Carter Centre persuaded DuPont, the US chemical company, to donate 2m sq yards of a special fine-mesh nylon which is far more suitable for filtration.

The campaign also uses computerised geographical information systems. "We need very strict surveillance of cases," says Dr Ranque of the World Health Organisation. "I'm working with Unicef to map all the infected villages."

The campaign against guinea worm has cost an estimated $62m over the past decade, less than one-tenth the amount spent eradicating smallpox. It has been a joint effort by United Nations agencies – notably the World Health Organisation and Unicef – national governments, and the Carter Centre. Ex-president Carter decided 10 years ago that the worm would be an ideal target for his centre's Project 2000, which aims to improve health in the developing world.

Now that final success is on the horizon, the UN agencies want village health workers who are looking after a handful of remaining dracunculiasis cases to pay more attention to helping people with other diseases. "I try to use guinea worm as an entry point for other health priorities," says Dr Ranque.

But the Carter Centre believes this would distract them from their primary purpose. "People must realise that an eradication programme is very different from a disease control programme," says Dr Hopkins. "You cannot reasonably expect to do a lot of other things at the same time."

The 1991 World Health Assembly set a formal target of eradicating guinea worm by the end of 1995. Having failed to meet that unrealistically ambitious deadline, health workers are reluctant to specify a new date.

"Betting against the clock is always a dangerous game in public health," Dr Cairncross says.

But everyone agrees that, given political willpower and financial support, the guinea worm will join smallpox as a disease studied by medical historians rather than practising doctors.

· LETTERS TO THE EDITOR ·

Number One Southwark Bridge, London SE1 9HL

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'Open skies' proviso not possible

From Mr Cyril D. Murphy.

Sir, United Airlines certainly agrees with your analysis that the British Airways-American Airlines alliance should not be approved unless the ultimate result is an increase in competition ("BA's flight to freedom," December 10).

I must take issue, however, with your suggestion that the US-UK aviation negotiations should resolve the questions of cabotage (the right of a UK carrier to operate between points in the US in return for the right for a US carrier to operate within the EU) and of the acceptable degree of foreign ownership of an air carrier (EU specifies 49.5 per cent; the US allows no more than 25 per cent). As 11 other European countries recognised in entering into "open skies" agreements with the US, neither issue can be resolved in bilateral negotiations between the two governments.

An agreement on cabotage with one European government would not be binding on any other European country. Only negotiations with the EU as a whole can resolve that issue. As to ownership, this again is an issue for the US and the EU to address. You are correct in noting that the EU would allow 49.9 per cent foreign ownership, but it would not permit the foreign owner to "control" the company regardless of its ownership level. The theory behind the US threshold is that when an individual owns more than 25 per cent of the stock of a public company, he is presumed to have effectively gained "control" of that entity.

It is difficult to imagine many situations in which a US carrier could acquire 49.9 per cent of the voting stock of a European airline and yet not be presumed to have effective control. None has been so bold as to try. This, again, is an area of regulation that must be harmonised between the US and the EU.

I believe that all of the US and UK airlines recognise that fact. The efforts of some to have these issues considered in the US-UK negotiations are really designed to raise impossible demands, hoping that the US will then compromise by accepting a less than truly competitive air transportation structure.

Cyril D. Murphy,
vice-president, international affairs,
United Airlines,
PO Box 66100,
Chicago,
Illinois 60666, US

Fines only as last resort under stability pact

From Mr Peter Coldrick.

Sir, I have lot of sympathy with the thrust of Paul de Grauwe's arguments ("An unbalanced agreement," December 20), namely that many countries may need more leeway when moving into recession than the Maastricht 3 per cent deficit target apparently gives.

However, he is wrong, as indeed was your reporting on the Dublin summit, in suggesting that the essence of the stability and growth pact is automatic fines in the case of excessive deficits. What the pact (and the treaty) actually says is that if countries persist in ignoring recommendations made to them by their peers in the Council then as a last resort fines can be imposed.

This is quite different, and I would argue that if in a future recession a number of member states breach the 3 per cent threshold, a la de Grauwe, the situation is most likely to be dealt with through recommendations on how to get the deficits down rather than with fines.

Peter Coldrick,
confederal secretary,
European Trade Union Confederation,
155 Bd Emile Jacqmain,
B-1210 Brussels, Belgium

Nothing wrong with a beautiful painting

From Ms Marlene Sim.

Sir, I agree entirely with William Packer ("Loaded brushstrokes", December 7/8) that it is nonsense when Howard Hodgkin concludes that people consider his paintings devoid of meaning, on the premise that they describe them as beautiful. The artist is also mistaken when he says that considering his paintings beautiful suggests one does not care to search for a meaning. Moreover, is it not rather surprising for an artist of Howard Hodgkin's calibre to equate "pretty" with "beautiful"?

To judge from the quotation by the artist – and contrary to the reviewer's view – Hodgkin is not an intellectual and philosopher painter; and the artist's "endless searching after intellectual respectability" is more than "tiresome", it is naive.

I, too, find many of Hodgkin's paintings beautiful and never tire in my search for possible meanings. It just does not ring true for an artist to be "irritated" if his creations are admired. If it is Hodgkin's intention to produce paintings which cannot be described as beautiful, then his works would indeed be failures.

Marlene Sim,
Mercat House,
15 Marketgate,
Crail, Fife KY10 3TH, UK

Industry TV series a valuable influence

From Mr Jeremy Hanley MP.

Sir, I was disappointed that Lucy Kellaway ("Little cheer in cardboard cut-out careers", December 16) could not see the value of the unique partnership between government and industry that has led to our new television series *In Good Company* – a series that celebrates the excellence of British industry.

The earlier series of *In Good Company* was shown by 276 TV stations in 90 countries. You don't achieve that scale of success without making good entertaining television. And another 2,045 copies were distributed to journalists, business people and opinion formers worldwide.

The new series will be made by an Oscar-winning director working for a respected independent production company. Far from being puff programmes about the companies, the series will explain why these companies are so successful – and that is its appeal to business people worldwide.

The writer may not recognise the value of television in influencing people. The Financial Times does – it co-sponsored another of our documentaries on the success of the British newspaper business. And the 52 companies which are sponsoring the new series clearly do. *In Good Company* will play an important part in the government's efforts to help 30,000 new exporters to break into overseas markets for the first time by the year 2000. We should applaud it.

Jeremy Hanley,
minister of state,
Foreign & Commonwealth Office,
London SW1A 2AH, UK

Personal View • Sir David Hannay

Adapt or face decline

Reform of the UN is essential if it is to deal with the problems that beset the world

Once again the process of choosing a UN secretary-general has laid bare all the imperfections of that organisation and the responsibility for many of them of the club members themselves.

Whether sacrificing the outgoing secretary-general on the altar of UN reform was wise, just or likely to strengthen the cause of reform itself may be doubted. But a new secretary-general has now been chosen. And the focus must shift to the reform agenda, what is needed, and how to bring it about.

The first thing all reformers need to remember is just how difficult it is to reform international organisations – far more difficult and time-consuming than reform at national level. The structures and policies of international organisations are the result of laborious compromises among their members. Change requires similar compromises.

If you set about it with a bulldozer you are all too likely to end up with a broken and not a reformed organisation.

But those who openly, or more often covertly, resist reform need to realise that international organisations are no more immune from the Darwinian process of adapt or decline than other political organisations. The UN desperately needs reform – to its finances; to its Security Council; to its prioritisation of economic and social issues; to its peacekeeping functions; and to the way it chooses its secretary-general.

It needs those reforms not just for one small group of its members but because without reform it will not be the effective universal instrument needed to deal with the global problems that face us all.

Any reform agenda has to start with finances. It makes no sense to leave the UN year after year on the brink of bankruptcy. That leaves its senior officials desperately stretching the elastic of inadequate financial resources, and forces its peacekeeping troop contributors to pay themselves for the privilege of sending their soldiers to distant lands on arduous missions.

Reuter

New man at the helm: Kofi Annan, UN secretary-general

Any system of financing must be based on capacity to pay, measured objectively and updated regularly. It also requires full and timely payment by all members of the club. At present neither of these two requirements is met.

The European countries have put proposals on the table in New York which could achieve both. Let us hope the US administration and other countries which have in the past been deep in arrears will engage now in serious and rapid negotiations over them. The aim must be to get the new secretary-general off to a better start than his predecessors by giving him the resources he needs to implement the policies decided by the member states.

As for the Security Council, reforming it is the Rubik's Cube of international diplomacy. Get one set of criteria for membership of this inner cabinet right and you put a lot of noses out of joint – arousing a storm of protest. Satisfy everyone and you end up with a council so large as to be neither efficient nor effective.

Members have now been playing with this particular Rubik's Cube for several years to no great effect. The time has surely come to ensure the UN faces a new millennium with a Security Council enlarged to be more representative but still capable of working effectively for international peace and security.

Permanent seats on the Security Council for Germany and Japan would be one step in that direction; an increase in the number of Asian, African and Latin American members, whether permanent or rotating an issue on which those regions should have some say, is another.

No aspect of the UN's work provokes more criticism and is less easy to reform than its economic and social programmes. They are ill-coordinated and widely dispersed among different agencies – each with a high degree of autonomy.

A first step should be to cut back on the proliferation of world summits which in recent years has got quite out of control and which devalue the currency. Summits should be called only infrequently and when both the need to address a particular issue globally and the means to do so effectively are evident. They should be the culmination of a serious process of preparation, not a substitute for it.

Then there has to be more effective prioritisation of the programmes. New priorities such as the environment, controlling population growth or dealing with new epidemic diseases cannot simply, as now, be piled on top of old priorities. The UN cannot aspire to do everything and where others such as the World Trade Organisation, the International Monetary Fund and the World Bank have become established, it should stand back.

There has been much criticism of UN peacekeeping in recent years, although there are a lot of people alive and leading better lives in Namibia, Cambodia, Mozambique and El Salvador as a result of such operations. Lessons have been learnt about the need to deploy more rapidly, to avoid being drawn into missions beyond the UN's capability to manage, and to combine military operations with police, electoral and human rights monitoring. It is now time to apply those lessons.

And then there is the selection process for choosing a secretary-general. Anyone who had hoped that the Grand Guignol performances of the cold war years were behind us has been disillusioned this year. There must be a better way of choosing Mr Annan's successor.

Appointment of the secretary-general for a single, non-renewable term, a bit longer than the present five years, would be a start to the process of reform. Another step would be abolishing rotation among the regional groups now that they have almost all had at least two turns, and choosing the best man or woman for the job on a worldwide basis.

Then the candidates could be asked to set out their programme and aspirations for the UN publicly. And the permanent members should agree they will not use their veto on the secretary-general's appointment.

None of this will be done as quickly as the reformers would wish, or in precisely the way they would prefer. But an agenda like this must be addressed and the members need to offer the political backing required to push a reform programme through.

Otherwise the fine words we all lavish on the UN at ceremonial occasions will remain just so much empty wind.

The author was UK permanent representative of the UN between 1990 and 1994

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FINANCIAL TIMES

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Monday December 23 1996

A tale of two cycles

Mr Alan Greenspan's record at the US Federal Reserve undeniably puts him in the top league of central bankers. But to suggest, as some commentators have recently done, that his adroit management of monetary policy has abolished the business cycle credits Mr Greenspan with qualities that border on the supernatural. A central banker is no more able to abolish the business cycle than a psychiatrist is capable of removing optimism and pessimism from the human psyche. The real question is what kind of cycle we are in.

It seems clear that since the 1970s the economic cycle has lengthened. In the period of high growth between 1950 and 1973, which economists refer to as the golden age, the fluctuations in the economy followed the so-called Kitchin cycle, named after the economist who first identified it. This worked on a four-to-five-year pattern, with governments playing an important role in determining the peaks and troughs.

Unfortunately, such counter-cyclical policy – to address the alternating problems of rising unemployment and overheating – tended to over-accentuate swings in an economy also influenced by the four-to-five-year electoral cycle. This, together with the growing conviction among economists that there was no long-run trade-off between inflation and employment, led to a retreat from Keynesian demand management. Markets started to play a more important role in determining the shape of the cycle.

Big shift

Using data for the Group of Seven industrialised countries, Brian Reading of Lombard Street Research has shown that the 1970s did indeed mark a big shift from short-term Kitchin cycles to the long-term Juglar cycle of eight to 10 years.

Since then the Group of Seven has seen strong expansions at the end of the decade followed by pronounced slumps at the start of the next, reflecting in part the reduced ability of governments to manage economic fluctuations.

From the 1970s the developed world has seen persistent structural budget deficits and an associated increase in government debt to levels previously only experienced after wars. At the same time bond investors who were burned by high inflation now punish wayward governments by imposing a big risk premium. This combination has reduced the potency of fiscal policy as a reflationary weapon. Hence the slow recovery from the recession of the early 1990s, which caught many forecasters on the wrong foot.

Too small

In effect we have returned to the pattern of the 19th century, when the public sector was too small to permit active fiscal management and monetary policy was dictated by the requirements of the gold standard. As in the 19th century, cyclical turning points now seem to be dictated by banking crises and market collapses. Recessions are exacerbated by credit contraction and debt deflation.

That is not to say that policy-makers are impotent. Monetary relaxation helped prevent the slowdowns in the mid-1980s and 1990s from turning into full-blown recessions. An overlay of the Kitchin cycle thus remains. But there cannot be a full return to the shorter cycle, or to golden-age rates of growth, until the markets are convinced that budget deficits are being properly addressed – and not just in the short term.

Such medicine is, paradoxically, good for markets even if growth is not robust. Whereas rising public spending reduced the share of profits in GDP in the golden age, fiscal stringency today makes room for an increase in the profit share. Disinflationary expectations have simultaneously helped bond markets.

For the rest of the decade the world thus seems likely to experience measured recovery, overexcited securities markets and a big banking hangover in due course. In the long cycle, greed and fear are at least as important as government policy.

Millennium blues

Many people have wonderful ideas about how they will celebrate the millennium in three years' time. Some of the smartest hotels are already saying: "No room at the inn." The most dedicated party-goers plan to do it twice by hopping across the international dateline from New Zealand to Western Samoa.

The UK government, too, has decided that it would like to make a bit of a splash. It wants to host a year-long celebration on the banks of the Thames near Greenwich, south-east London. For a cool £700m ($1.1bn) – the price of a bottle of champagne for every adult – a space-age dome is to be built. Twelve pavilions underneath will house exhibitions on "Time".

It is easy to mock this grandiose idea. Hanover's Expo 2000 and the Sydney Olympics apart, other major cities are planning little more than a street party and a few fireworks. But people were also sceptical about the Festival of Britain in 1951, which was a great success.

The project will reclaim for posterity 80 acres of contaminated land on the site of a former gasworks. When the celebrations are over, people will still be able to enjoy a walk in the park. In response to criticism of the transience of the event, the planned life of the dome has been extended so that it can host exhibitions for a number of years afterwards. Its supporters claim, above all, that it would be sad if the nation were unable to come together to show Britain at its best.

Rising cost

However, the exhibition is not a robust business proposition. The estimated cost has already risen from £500m in the summer to £700m now. It might well turn out higher still. The British Library and Eurotunnel are examples of large, high-profile projects which exceeded their budgets enormously. Both were also behind schedule, which clearly would be embarrassing in this case.

The millennium exhibition must be built in three years. A risk assessment commissioned by the exhibition's organisers suggests that £200m should be added to the cost to cover contingencies, and that the overshoot might exceed £400m.

The budget for the project also requires Olympic-sized sponsorship of £150m. But the exhibition idea has yet to evoke Olympic-sized popular enthusiasm. Although 35 companies have had their arms twisted by Mr Michael Heseltine, the deputy prime minister, to sponsor the event, money has not yet changed hands. Many who said "maybe" in Mr Heseltine's powerful presence now seem reluctant.

Tourist attraction

In addition to sponsorship, ticket revenues of £20 and advertising worth £10 per visitor will be needed. And the exhibition must be exciting enough to attract the target 13.5m people, over 50 per cent more than any UK tourist site currently receives. The problems attending EuroDisney's launch show how crowds can fall disastrously short of expectations.

The way the project has been run so far does not augur well. Months were wasted in a competition between potential hosts. On Friday, the chief executive quit. With private sector support evaporating, the government is to step in as sole shareholder at Millennium Central, the organiser.

A vision on this scale could only be realised with the help of the National Lottery. But the £200m of lottery money allocated to the Greenwich exhibition could be better spent on a feature of lasting value to the nation.

The buck now rests with Mr Jack Cunningham, shadow heritage secretary. The blessing of a future Labour government is required if sponsors are to be attracted. Labour is understandably reluctant to be a party-pooper. Many will want the nation to mark the event. But it is not too late to think again about this particular millennium plan. Perhaps New Labour can come up with a new idea.

Journey to Emu's heartland

Edward Mortimer, travelling through France and Germany, finds splits over monetary union – but few who think it will not happen

Die Wessis kennen alles, aber kein Sächsisch. (The west Germans know everything, but they can't speak Saxon.)

Bruxelles, touches pas à mes quenelles! (Brussels, hands off my dumplings!)

France and Germany, the two locomotives of European integration, are now grinding and sputtering up the last steep slope leading to European monetary union. Their economic performance next year, with that of their prospective partners, will determine whether the single currency goes ahead in 1999, and if so with what membership.

The drivers in both vehicles seem convinced they will reach the station. But both are subject to jeers and conflicting advice from their passengers, and they still do not seem to be pulling in exactly the same direction.

The two slogans, glimpsed on a tour of important regional centres in France and Germany last month, illustrate both a similarity and an important difference between the two. The first was seen in a suburb of Dresden, capital of the state of Saxony in the former communist east Germany – the latter in a suburb of Marseilles, France's cosmopolitan port on the Mediterranean.

Both slogans express determination to protect a local culture against arrogant, interfering outsiders. But in Germany there is a strong sense of regional identity, and among the inhabitants of former eastern *Länder* such as Saxony, the threat is seen mainly as fellow Germans from the west.

"People here are very proud to be Saxon," says Mr Dieter Jähnichen, head of the Euro Information Centre at Dresden's Chamber of Industry and Commerce. "They are first Saxon, then German. The European feeling is not so developed."

In France, a proud nation state with a long history of centralisation, it is national traditions which are strongest, and the interference of foreigners that is most resented. The present division among the French is between those (like the slogan-writer) who see Brussels as the enemy, and those who believe a stronger Europe, with a strong single currency, is essential if France and other European nations are to defend their interests in a world dominated by the dollar and the yen.

Another big difference is that in Germany, unlike France, nationalism remains taboo, because of its past excesses. This is probably the biggest handicap faced by German Eurosceptics such as Mr Manfred Brunner, leader of the Bund Freier Bürger (Free Citizens' League). His challenge in the federal constitutional court delayed German ratification of the Maastricht treaty by more than a year.

Seventy-two per cent of Germans would say No to economic and monetary union in a referendum, according to the latest opinion poll. But, says Mr Josef Janning of Munich's Centre for Applied Political Research, "public opinion is not mobilisable on the issue. Brunner tried, but he inevitably got into the nationalist camp."

In France, 54 per cent still say they favour monetary union, but the percentage is falling. Most commentators, including many who support Emu, believe it would be defeated in a referendum held today because the electorate would seize the chance to snub the government led by Mr Alain Juppé, and indeed the whole political class.

"The more Juppé and Arthuis [the finance minister] talk about it, the more it will go down," says Mr Bernard Falck, international director at Lyons Chamber of Commerce.

In neither country, however, is a referendum in prospect. In Germany the Basic Law makes no provision for holding one, while France has already held one, in 1992. So most people in both countries, including many opponents of Emu, seem resigned to its going ahead.

In Dresden, for example, officials of the Handwerkskammer (Chamber of Crafts) express their members' doubts and anxieties about the project. But they seem almost bewildered if one suggests that they might try to persuade the German government to drop it. "Oh, we wouldn't succeed," says Mr Manfred Meyer, the chamber's director.

"I'm not fully convinced it's positive, but I am convinced it will come," says his colleague, Mrs Monika Warnke. She doubts whether the Handwerkskammer could influence the outcome even if there was an referendum, with both the main parties wanting to go ahead with it.

In Marseilles, where a majority of the electorate voted No to Maastricht in 1992, a surprisingly similar fatalism is voiced by Mr Maurice Gros, regional leader of the militantly anti-Maastricht Front National. "Public opinion is fairly anti the euro but the political establishment will have the last word... The majority of people in Marseilles are against Europe, but they believe we will have to put up with it. There's nothing we can do."

His own party, he says, is making progress, "but not specially because of Europe". For most voters the issue comes well behind the economy, political scandals, immigration and personal safety.

Only in Bavaria is this fatalism not shared. Mr Brunner, at his Munich headquarters, says he will fight both state and federal elections in 1998 on "a platform analogous to that of Sir James Goldsmith: let the people decide".

He disputes the conventional wisdom that a referendum is impossible in Germany, brandishing Article 20, Section 2 of the Basic Law: "All state power derives from the people, and is exercised through elections and referenda."

He concedes this would need to be "concretised" through a constitutional law, but "that is no problem: the Bundestag makes dozens of such laws every year".

Mr Brunner gleefully cites a recent newspaper interview in which Mr Edmund Stoiber, the Bavarian prime minister, warned that, if Germany did not win its argument with France over the precise terms of Emu, "Brunner will go back to the constitutional court, and the whole European idea will be blown up".

He will indeed go back to the court, he says, "even if, which I don't believe, the convergence criteria are fulfilled in 1997". The court's previous verdict, he explains, included the stipulation that the criteria – set in the Maastricht treaty as conditions for membership of the single currency – must be reached "for a long time" before the final phase of Emu. Neither France nor Germany meets the criteria at present, and if they are admitted on the strength of their performance in 1997 they will have demonstrated convergence for only one year – "not a long time in the court's sense".

The previous verdict also requires that the decision on which member states have met the criteria must be approved by the Bundestag. Mr Brunner says he will challenge that approval as soon as it is given, probably in April 1998. This, he believes, will give the court time to decide before the final phase starts on January 1 1999. If not, he will apply for an interim injunction, blocking implementation of Emu until the court is ready with its substantive judgment.

Mr Stoiber's remark suggests that the Bavarian government takes this threat seriously, or at least is using Mr Brunner to bolster its own thinly veiled campaign for Emu postponement. "We never use the word 'postpone' in this house," says Mr Kurt Faltlhauser, Bavaria's European affairs minister. "We say we must have stable observation of the criteria before the date and, failing that, let's take another date."

He makes clear, moreover, that France's proposal to meet the fiscal criteria by juggling with the France Télécom pension fund is not acceptable. "I can't imagine that Theo Waigel [the federal economy minister and leader of Bavaria's ruling Christian Social Union] will go along with that."

Less fettered by political constraints, but close to the Bavarian government's thinking, is Mr Manfred Scholz, president of the Confederation of Bavarian Industry (LBI). He has come out openly for postponement of Emu "for one or two years", arguing that this would allow a larger number of states, in particular Italy and Spain, to meet the criteria without resorting to "bookkeeping tricks".

"I love the European currency system so much," he says, "that I'd like to give them enough time to get it right."

Mr Stefan Albat, LBI chief executive, points out that Italy's participation is vital for Bavarian industry, since Italy accounts for a third of the state's imports and exports. It is, for instance, the most important customer for BMW, the carmaker.

Yet Mr Peter Laurent, BMW's head of international economic analysis, favours pushing ahead with Emu even without Italy if necessary. "If Italy is not part of the first stage it is a bit of a problem," he agrees, "but to take this as a reason for postponing by a year or two means risking a postponement for ever."

Mr Bernd Stecber, chief economist at Siemens, the electronics group, is equally eager to get on with things. He calculates that exchange-rate fluctuations cost his company more than DM100m ($64m) annually in lost sales, and about the same amount in lost earnings due to D-Mark appreciation, while transaction costs may come to another DM100m.

As Mr Kurt Biedenkopf, Saxony's prime minister, points out, there is a conflict of interest between Germany's small investors, who relish the strong D-Mark and want the euro to be equally strong, and German exporters such as Siemens and BMW. The latter would not mind a slightly softer euro. What they most fear is too strong a D-Mark if Emu is postponed.

French industry, too, is enthusiastic about Emu, and deeply suspicious of arguments for delay. But some businessmen would like one last devaluation before taking the plunge, as recently suggested by former President Valéry Giscard d'Estaing.

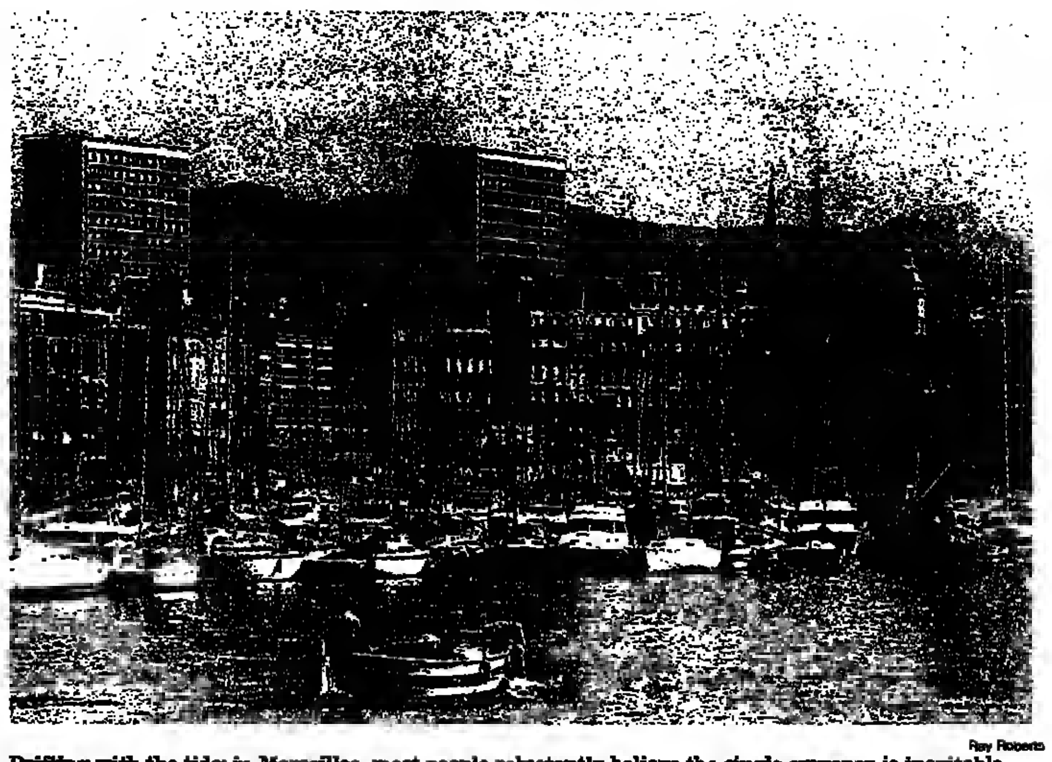
This proposal from one of the founders of the European monetary system was hailed joyfully by anti-Maastricht politicians. But it has deeply shocked pro-Europeans such as Mr Raymond Barre, mayor of Lyons, who was once Mr Giscard d'Estaing's prime minister.

The former president justified his bombshell by arguing that it was the only way to correct the overvaluation of all European currencies against the dollar. That explanation is "not good enough", says Mr André Soulier, a member of the European parliament and one of Mr Barre's deputies at Lyons city hall.

"I'm afraid the true explanation is much simpler," says Mr Soulier. "Giscard wants to stay in the political game... But what is pathetic is that someone like him, who with Helmut Schmidt [the former German chancellor] is indisputably the father of the European monetary system, should now put it in danger and risk making it explode."

Mr Giscard d'Estaing is not alone in playing politics with the euro. France's opposition Socialists have also proposed preconditions of "economic and social convergence" which they know will not be realised, and which Germany would certainly reject.

Yet no one in France believes these conditions will be applied if the Socialists return to power after parliamentary elections due in March 1998. Emu, it seems, is propelled by "realities" that are somehow too strong and impersonal to be affected by mere party politics. Only the Bavarians seem not to know that.



Ray Roberts

Drifting with the tide: in Marseilles, most people reluctantly believe the single currency is inevitable

Cultural symbol: in Dresden, people feel Saxon first, German second, and European last

Why talk today is relatively cheap

In the long run

People instinctively overestimate the costs of a phone call. In a recent television advertisement for British Telecommunications, Mr Brian Walden, a well-known journalist, asks members of the public to guess the cost of typical calls. They all venture figures that are far too high – sometimes by as much as 600 per cent.

This, however, is understandable. In 1927, when the first radio telephone service between the UK and the US was inaugurated, a three-minute call from London to New York cost £15. Fifteen 1927 pounds that is; at constant 1996 prices, the call cost a cool £486.98 ($758).

Today, BT will charge you 52p for the same three-minute call if you take advantage of all its discounts, or 75.6p standard rate. Competitors are undercutting its prices handsomely – Energis, the telecoms operator owned by the National Grid, charges its best customers a mere 30p.

The decline in the price of international telephone calls over the past 70 years is a phenomenon which reflects technological advances, huge increases in demand and changing competitive and regulatory regimes.

Calls between the US and the UK constitute the third most important international route after calls between the US and Canada and Mexico. US callers spent 905.5m minutes on the phone to the UK in 1994, while there were 588.7m minutes of calls in the opposite direction.

Alexander Graham Bell, the Scots-born inventor of the telephone, envisaged his invention principally as a way of disseminating concerts and other musical performances to a wider audience. Today, the main use of music on modern exchanges is to serenade callers on hold.

Whether a phone call is carried by radio waves or fibre-optic cables, the marginal cost of the call is close to zero once the infrastructure has been installed. Operators can route calls from London to Glasgow via the US when UK trunk lines are congested, without damaging their profits.

That operators have been able to charge substantially higher rates for long-distance and international calls than for local calls has been chiefly a consequence of telecoms politics.

When an operator has a national monopoly, it can encourage the development of a universal service by subsidising residential subscribers. But this is at the expense of business customers, who make the majority of long-distance and international calls. Certainly, back in 1927, only businesses with deep pockets and governments would have been able to stump up the cost of a brief conversation – the equivalent of a month's average earnings.

Even under monopolies, however, economies of scale have immediate effects. As volumes of transatlantic calls built up, the price fell 40 per cent within a year to £9 and a further 30 per cent to £6 by 1935 (although as the then Post Office Telephones pointed out, the cost could be as much as £7/16/0 to some US states and Canadian provinces).

The second world war called a temporary halt to the service; when it was resumed in 1945 at the end of hostilities, the cost of a three-minute call to New York had halved to £3.

It was still at this level in 1965. Inflation meant, however, that the price had fallen in real terms by almost a half. In 1996 pounds, it fell from £62.80 in 1945 to £41.68 in 1955 and £33.73 in 1963.

During this period, the route was transformed by the laying in 1956 of the first transatlantic cable, TAT-1, spanning 1,950 miles between Oban, Scotland, and Clarenville, Newfoundland. Thirty-six simultaneous conversations were possible over copper cable. (The latest undersea cable – Flag, or Fibreoptic Link Around the Globe – comprises four hair-thin glass fibres capable of carrying 600,000 simultaneous conversations.)

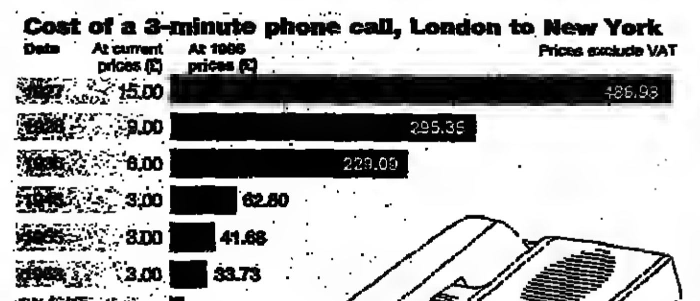
Undersea cabling produced immediate improvements in service, since radiotelephony was dependent on atmospheric conditions and easily intercepted. And in 1970, the addition of automatic switches made it possible for people in the UK to dial New York directly.

In recent years competition and regulation have taken over from technology in driving prices downwards. In 1984, the UK government licensed Mercury Communications to compete with British Telecommunications; the newcomer targeted the lucrative long-distance and international market, sparking off a price war that has continued ever since.

Low inflation over the past few years has driven prices down further. Many of BT's prices – including international calls – have been controlled by the regulator using a formula that restricts increases to the rate of inflation minus X percentage points. Five years ago while inflation was high, X was set at 7.5 per cent. With inflation below 3 per cent, BT has had to return money to its customers – about £1bn in all – in price cuts.

There is more to come; the continued opening of international telephone markets to full competition will further reduce prices. So will the advent of internet telephony, which should allow users to make international telephone calls at local call rates. Mr Walden's interviewees will continue to be surprised by how cheap it is to talk.

Alan Cane



face decline

FINANCIAL TIMES
Monday December 23 1996

Peru guerrillas score propaganda advantage

By Sally Bowen in Lima

Guerrillas holding more than 300 hostages at the Japanese ambassador's residence in Lima scored a propaganda advantage over the authorities yesterday, as the Peruvian and Japanese governments moved to present a common front in their response to the crisis.

Peruvian radio and television yesterday carried interviews with many of the 38 hostages released by the Marxist Tupac Amaru Revolutionary Movement (MRTA) on Friday night.

Many showed some sympathy with the demands and ideology of their captors and most said they had been treated well. All emphasised the difficult living conditions inside the residence, caused in part by the government cutting off water and electricity.

In another propaganda coup, late on Saturday the guerrillas succeeded – with the help of a local television channel – in setting up an improvised radio link with the residence. The guerrilla commander, identified as Nestor Cerpa Cartolini, broadcast a message to the hostages' families, reassuring them that all those not linked to the government of Mr Alberto Fujimori would gradually be released.

He drew a parallel between the deprivation being suffered by the hostages and that of his jailed MRTA comrades, implying he had not modified initial demands for the release of top MRTA leaders.

The two principal hostages – Mr Francisco Tudela, Peru's foreign relations minister, and Mr Morihisa Aoki, Japan's ambassador in Lima – spoke immediately after the guerrilla commander and called for negotiations between the guerrillas and Peru's government.

Mr Tudela, appearing to distance himself from the cabinet in which he holds a key post, confessed "great frustration" at lack of communication between the government and guerrillas.

On Saturday Mr Fujimori made his first public statement since about 20 guerrillas stormed a cocktail party at the residence on Tuesday. In a brief television appearance he denied trying to avoid dialogue but said: "It is impossible to speak of peace or of accord while terror is being employed as the principal argument."

Mr Fujimori urged the guerrillas to surrender their arms to a "commission of guarantors" and facilitate the evacuation of hostages. Only if this happened "will the possibility of the use of force be discarded".

Mr Ryutaro Hashimoto, Japan's prime minister, yesterday gave full backing to Mr Fujimori.

Japan's resolve tested, Page 4

Brussels attacked on conduct of BSE campaign

By Caroline Southey and Neil Buckley in Brussels

The European Commission sought to minimise the threat to consumers from BSE, or mad cow disease, in a way that "could be construed as misinformation", according to a draft report from a European Parliament inquiry.

Accusing the Commission of putting the interests of the farming industry ahead of consumers, the report calls for a radical overhaul of the way the European Union manages food safety and animal health. Reforms should include the creation of a "unit for public health protection" and treaty changes to ensure higher priority for consumer protection in future EU farm laws.

The British government is singled out for particular criticism for failing to take action to contain the disease. The report asserts that it failed to enforce a ban on feeding ruminants meat and bonemeal, one of the first measures taken to limit the spread of BSE. Meat and bonemeal infected with the sheep disease scrapie is considered the most likely source of BSE.

The inquiry's draft report, by Mr Manuel Medina Ortega, a Spanish MEP, is likely to be reworked before publication on January 22. It will be discussed with Mr Jacques Santer, president of the Commission, a week before release.

"The final report is likely to come out with different views. The draft does not reflect the opinions of all the committee's members," a European Union diplomat said.

Mr Medina's report says the UK was negligent on several fronts, including its failure to: neutralise the BSE or scrapie agent in feed; prevent exports of meat and bonemeal; put in place laws on cattle identification; enforce veterinary controls; and implement the selective cull of cattle agreed by EU heads of government in Florence last June.

Mr Medina also asserts that the UK was guilty of "partial reading of advice and warnings from scientists", failing to take into account the most critical views. As a result the "grave and imminent danger of possible transmission [of BSE to humans] was only taken account of on March 20 1996".

The report attacks the Commission for putting the interests of farmers and the agricultural industry before public safety.

It argues that the Commission carried out a policy of "minimising the problem, which could be construed as misinformation. All this was done to avoid disturbances on the meat market".

Gazprom may buy Pravda

Former Soviet mouthpiece in takeover talks

By Chrystia Freeland in Moscow

A group of liberal journalists and Gazprom, Russia's natural gas monopolist, are believed to be negotiating to buy Pravda, Russia's most famous communist newspaper.

They want to transform Pravda, founded by Lenin in 1912 as the mouthpiece of the Bolsheviks, into the populist voice of Russia's new capitalist establishment.

The paper's owners and Gazprom denied reports of the plan, which have surfaced in the Russian media.

But journalists and business people close to the project confirmed over the weekend that the idea had been pursued, although they said the premature publicity could scupper it.

Success for Gazprom and the liberal journalists in a takeover would be an important symbolic victory over one of the last, albeit tattered, standards of the Soviet regime.

There is even a plan to change the Pravda masthead to echo the slogan of Kommersant, Russia's leading business daily.

In a tongue-and-cheek allusion to the Soviet era, the masthead of Kommersant – set up in pre-revolutionary Russia – reads: "Published since 1909. From 1917 to 1990 the newspaper was not published due to circumstances beyond the control of the editors."

The new, capitalist masthead of Pravda would read: "From 1912 to 1996 the newspaper *was* published due to circumstances beyond the control of the editors."

Since the collapse of the USSR, Pravda has fallen on hard times. It was briefly banned in 1991 after the failed hardline communist coup. Within a year of reopening it hit such severe financial difficulties that the employees – Pravdistas, as they call themselves – were forced to sell a controlling interest to the Greek Giannikos family.

This summer the owners clashed with the conservative editor, temporarily suspending publication.

The dispute has divided the newspaper's journalists and created two rival Pravdas: a populist, widely circulated edition called Pravda-5, published by the Greek owners, and an intermittently produced hardline communist broadsheet put out by the editor and his allies.

Although the Giannikos family controls 55 per cent of Pravda International, the Pravdistas claim they own the trademark.

Journalists close to the project said Gazprom was reluctant to commit money until the ownership of the trademark could be established.

Ulster on brink of full-scale violence

Continued from Page 1

no admission of responsibility for yesterday's attack by either of the two main Protestant paramilitary groups, the UVF or UDA, politicians on all sides said it could signal the end of the paramilitary ceasefire.

Mr David Ervine, leader of the Progressive Unionists, the UVF's political wing, said: "I think it is potentially the beginning of a spiral."

Mr John Bruton, Irish prime minister, condemned both weekend attacks.

Amid fears of further IRA retaliation, Mr Gerry Adams, president of Sinn Féin, said he could not rule out the possibility of "British dirty tricks involvement".

The truce announced by the loyalist paramilitaries had been under intense pressure after the IRA marked the end of its 18-month ceasefire with a bombing in London's Docklands last February, then followed that with blasts in Manchester and British barracks in Ulster and Germany.

The bomb attack on Mr Copeland came hours after a joint Protestant and Catholic peace rally in Belfast, attended by a few hundred, far fewer than the thousands hoped for.

THE LEX COLUMN

French evolution

Whatever problems France has suffered this year, its equity market has not been among them. Botched privatisations; spluttering growth; a government depressingly willing to cave in to vested interests – nothing has prevented the market from soaring.

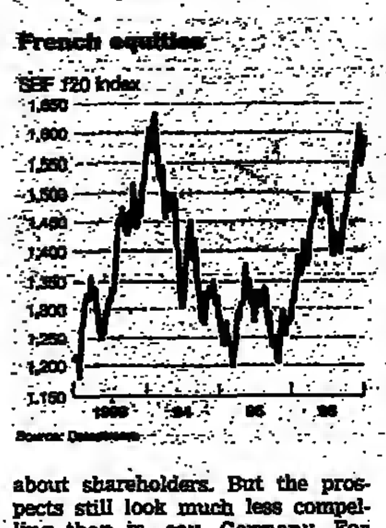
Why? Top of the list are perennial hopes that French corporate culture is shifting. Company chairmen now fluently talking of *le shareholder value*, the logic runs, must deliver in the end. Recent deals such as Auchan's acquisition of Docks de France and Axa's of UAP are cited as concrete signs of a livelier approach. In addition, two back-up arguments are used. Buoyancy in French bonds has provided a valuation argument of sorts – traditionally, the two markets have correlated closely. There have also been extravagant hopes that newly launched private pensions will result in a flood of liquidity into equities.

Yet there is a snag. At 20 times next year's average earnings, French equities are the most expensive in Europe. True, the earnings outlook over the next few years looks benign. But the stocks look pricey even so.

Moreover, restructuring enthusiasts need to remember that traditional management attitudes are not the only hurdle; the scale of France's unemployment problem is just as big an obstacle. It means an unpopular government is unlikely to make it easier or cheaper to cut jobs. And ministers have an awkward habit of becoming involved in private sector decisions: witness the recent *routiers* strike, which should have been employers' business but where the government intervened and did the climbing down.

Meanwhile, it is all very well celebrating the bond market's strength, but what underpins it is the prospect of European monetary union. And for French equities, the implications of Emu look distinctly double-edged. The disappearance of the French interest rate premium over Germany is excellent news, but against this has to be weighed a host of problems. Not least, the elimination of currency risk will give investors new freedom. If French stocks are expensive by European standards, why should even the much-hyped pension funds bother buying them?

In the end, the judgment for investors is a relative one. Yes, French growth should be rosier next year. Yes, managers care more



about shareholders. But the prospects still look much less compelling than in, say, Germany. For 1997, France is a market to underweight.

Economic value

To look at dividends but ignore capital gains would be an elementary error. But advocates of "economic value added" (EVA), or one of its fashionable cousins, risk making much the same mistake.

EVA – popularised by Stern Stewart, the US consultants – has one big advantage as a performance measure: it subtracts a charge for the capital tied up in a company from its profits. The important point is that a business is only adding valoe if it is generating a return greater than its cost of capital. Increasingly, companies use EVA to determine bonuses of executives in individual business units.

The problems come in the implementation – in particular, the use of short time periods for measuring EVA. A business can boost EVA in any one year by running down the value of its assets – for example, by failing to invest in training, brand development and so forth. That is hardly in shareholders' interests. Equally, a business can advance investors' interests by expanding into new markets or products, but the resulting initial losses may knock EVA in the short run.

Of course, in the long run, wise investments will enhance EVA and under-investment will depress the measure. But by then, the original manager may have moved on. So simplistic application of EVA can give executives an artificial incentive to maximise short-term profits at the expense of long-term valne creation.

Sophisticated users of the tool, such as LucasVarity, are aware of this pitfall and have techniques for managing it. One is to measure performance over several years – allowing some of a bonus awarded in one year to be clawed back if EVA subsequently drops. Another is to segregate heavy investment projects from a business unit's EVA calculation until they are budgeted to make money. A third is to ensure through rigorous planning that sufficient funds are invested in renewing each business.

All these mechanisms are improvements on crude annual EVAs. But they do not go far enough. Ideally, ono should measure not merely how much extra profit a business makes above its cost of capital (the annual EVA), but also how much the value of its assets have increased or fallen.

Of course, measuring how asset values have changed is not easy. But that is no excuse for shying away. It should still be possible to make a qualitative judgment. Moreover, tbe resulting dialogue between group and divisional management should create a healthy focus on what drives value creation. So much so that it would be good if top managers conducted a similar dialogue with their investors too.

This is the first in a series of articles on valuation to appear in Lex over coming weeks.

Northern Electric

How come Northern Electric's future hangs, bizarrely, on the precise status of a £250,000 discretionary payment from Northern to its broker BZW? Plainly, BZW deserves a big chunk of blame, for initially failing to reveal the potential payment to the Takeover Panel. But blame must also lie with the panel, for failing to ban Northern's advisers from buying its shares in the market last week. Had it done so, the fuss over the £250,000 would never have arisen. And Northern, deprived of its advisers' assistance, would probably have lost out to CalEnergy in a fair fight.

As it is, the panel's solution – to extend the bid deadline, presumably handing control to CalEnergy – has a certain rough justice to it. In effect, CalEnergy just gets to make up some of the ground it lost through Northern's advisers' market buying. Nonetheless, this sort of messy arrangement will not do for the future. The rules on market buying by advisers must be rewritten.

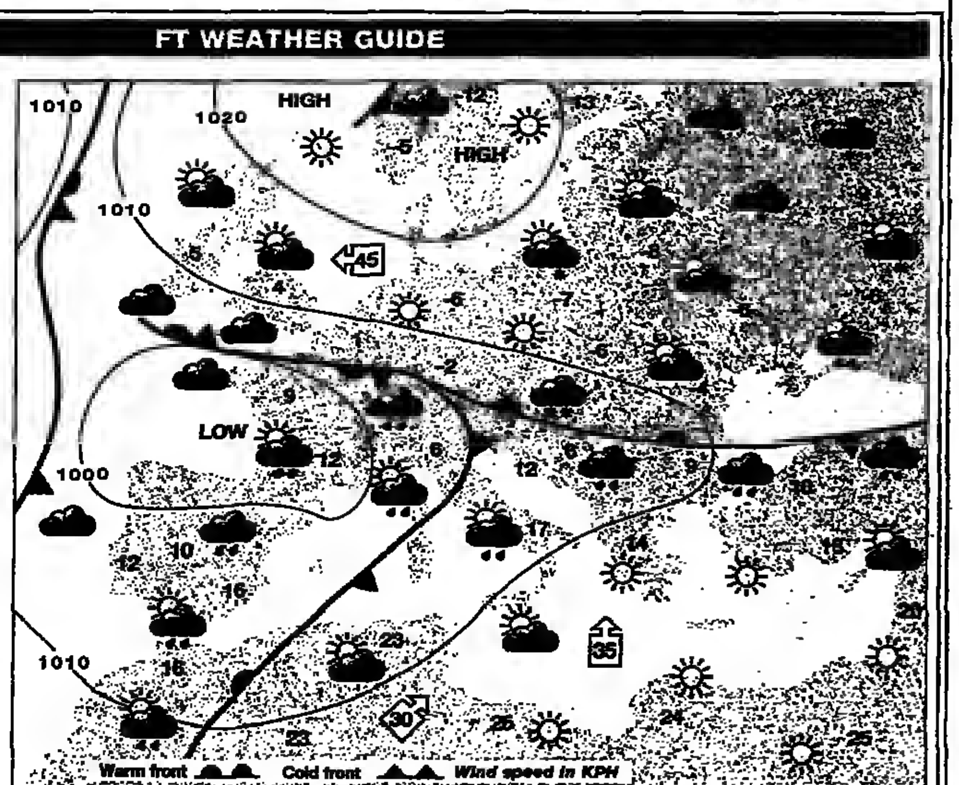
FT WEATHER GUIDE

Europe today

Spain and Portugal will be unsettled with the most frequent showers in the north-west and south. A front stretching from the English Channel across the northern Alps to northern Turkey will separate cold, wintry and dry conditions to the north from moist and mild air to the south. Scandinavia will be very cold. Parts of the Benelux and the UK will also be very cold. Western parts of the front will have rain. The northern Balkans will have snow.

Five-day forecast

Wintry conditions will persist north of a line drawn from Paris to Bucharest. An area from Scandinavia towards the Baltics and Poland will have fresh snow. Spain and Portugal will stay unsettled. Northern Algeria, Italy, the Balkans and southern Turkey will have some rain on Christmas day.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius										
		Belfast	fair 5	Casablanca	thund 19	Gibraltar	rain 15	Manchester	sun 4	Rome	shower 19
		Belgrade	rain 6	Chicago	snow 2	Glasgow	sun 4	Manila	shower 31	S. Frsco	fair 13
Abu Dhabi	fair 23	Berlin	sun -4	Cologne	fair 0	Hamburg	sun -1	Melbourne	fair 28	Seoul	fair 4
Accra	fair 30	Bermuda	shower 22	Dakar	sun 26	Helsinki	fair -10	Mexico City	fair 19	Singapore	shower 32
Algiers	shower 21	Bogota	shower 20	Dallas	fair 14	Hong Kong	sun 23	Miami	fair 27	Stockholm	fair -7
Amsterdam	sun -1	Bombay	fair 33	Delhi	sun 24	Honolulu	fair 27	Milan	rain 6	Strasbourg	drzzl 2
Athens	fair 16	Brussels	fair 0	Dubai	fair 25	Istanbul	shower 14	Montreal	snow -1	Sydney	sun 27
Atlanta	rain 15	Budapest	snow -1	Dublin	fair 6	Jakarta	shower 30	Moscow	snow -11	Tangier	rain 16
B. Aires	fair 29	C.hagen	sun -2	Dubrovnik	shower 16	Jersey	rain 6	Munich	snow -2	Tel Aviv	shower 20
B.ham	sun 8	Cairo	sun 21	Edinburgh	fair 4	Karachi	fair 28	Nairobi	fair 26	Tokyo	fair 11
Bangkok	fair 33	Cape Town	fair 26	Faro	shower 16	Kuwait	fair 29	Naples	fair 19	Toronto	rain 3
Barcelona	cloudy 15	Caracas	shower 30	Frankfurt	cloudy 0	L. Angeles	sun 17	Nassau	fair 26	Vancouver	rain 4
Beijing	sun 6	Cardiff	sun 4	Geneva	rain 6	Las Palmas	shower 24	New York	cloudy 9	Venice	drzzl 9
						Lima	fair 24	Nice	shower 15	Vienna	snow -2
						Lisbon	shower 12	Nicosia	fair 17	Warsaw	fair -6
						London	sun 5	Oslo	fair -7	Washington	cloudy 16
						Lux.bourg	snow 0	Paris	drzzl 6	Wellington	fair 18
						Lyon	rain 7	Perth	fair 27	Winnipeg	cloudy -21
						Madeira	fair 16	Prague	fair -8	Zurich	rain 5
						Madrid	rain 10	Rangoon	fair 31		
						Majorca	cloudy 17	Reykjavik	shower 5		
						Malta	sun 22	Rio	shower 29		

هكذا من الاصل

FINANCIAL TIMES
COMPANIES & MARKETS

Monday December 23 1996

Steve Jobs heads back to computer company he started in a garage 20 years ago

Apple's prodigal son returns after takeover


Reunited: Steve Jobs (left) and Apple chairman Gil Amelio announcing the NeXT deal AP

Steve Jobs is back at Apple Computer. The young man who captured the world's attention in the 1970s by founding the company with his friend Stephen Wozniak and pioneering the commercialisation of the personal computer is once more to play a key role in Apple's future.

At a hastily arranged press conference at the company's headquarters in Cupertino, California, last Friday, Apple announced that it intended to acquire NeXT Software, the company formed by Mr Jobs after he was ousted by Apple's board of directors 11 years ago.

The $400m (£239.5m) deal will provide Apple with technology it urgently needs to rejuvenate its ageing Macintosh software and compete more effectively with companies offering PCs that run Microsoft's Windows.

Reunited with Apple, Mr Jobs will act as part-time product strategy adviser to Mr Gil Amelio, Apple chairman and chief executive, helping guide the company in one of the most critical product transitions in its 20-year history.

Although Mr Jobs will have no operational responsibilities at Apple – he intends to split his time between it and Pixar, the animated film production firm where he remains chief executive – he is sure to become a figurehead.

A charismatic but mercurial leader, Mr Jobs could do much to boost the flagging morale of Apple's employees who have seen more than 3,500 of their colleagues leave the company, either voluntarily or through lay-offs, over the past year.

For Apple, the NeXT acquisition is a make or break move. Coming as Apple struggles to regain its momentum after a year of heavy losses and declining market share, it is a bold attempt by Mr Amelio to secure Apple's future by reclaiming the mantle of the industry's leading technology innovator.

"In much the same way that 12 years ago the original Macintosh launched a wave of innovation in the PC industry, this technology [from NeXT] has the opportunity to do the same," he said.

For much of the past 10 years the PC industry has been "slowly copying the Mac's revolutionary graphical user interface", said Mr Jobs. "Now the time has come for new innovation, and where better than Apple for this to spring from?"

By mapping a clear path for the development of the next generation of Macintosh software, Mr Amelio hopes to regain the confidence of independent application software developers who are critical to the company's future success.

Currently, most PC software developers give priority to versions of their programs that run on Microsoft's Windows operating system. New applications for the Macintosh are often published months behind the Windows version.

Most importantly, Mr Amelio must reassure customers that Apple has a future as a mainstream supplier of PCs to business users as well as to schools and the home. His choice of NeXT's technology which, although widely acclaimed in technology circles has not achieved great commercial success, is risky.

> 'I still have very deep feelings for Apple. A few strategic decisions can make a big difference for a company. I hope I can participate in some of those' Steve Jobs

But Apple has had few choices. The company's internal efforts to develop a new operating system for the Macintosh foundered as management turmoil and lay-offs depleted the engineering team. Talks with Be, a software company formed by Mr Jean Louis Gassee, a former Apple technology chief, deadlocked over price and Mr Gassee's demands for representation on the Apple board. As Apple cast a wider net, the company considered licensing software from Sun Microsystems, the computer workstation leader.

With time pressing before a self-imposed deadline of January 7 for the announcement of its future software strategy, Apple turned to NeXT and reached an agreement over a period of just a few weeks.

The NeXT and Macintosh technologies are "very complementary" said Ms Ellen Hancock, Apple senior vice-president in charge of software, adding "NeXT is exactly what we needed."

The decision to acquire NeXT came after a thorough analysis of all options, she said, and was not unduly influenced by Mr Jobs being a founder of Apple, she insisted.

Nonetheless, the human drama of Mr Jobs' return to Apple is compelling, adding yet another episode to the company's soap-opera history. Founded by "the two Steves" in 1976, who started by building PCs in the garage of Mr Jobs' parents' home, Apple became one of the fastest growing companies in US history. By 1985, it had annual revenues of almost $2bn.

But it was in that year that Mr Jobs was ignominiously fired by the company he had co-founded and built into one of the best-known enterprises in the world, renowned for its youthful, irreverent culture as much as for its products.

His departure followed a bitter power struggle with Mr John Sculley, the former president of Pepsi-Cola who he had brought to Apple with the challenge: "Do you want to spend the rest of your life selling sugar water or do you want a chance to change the world?"

Undaunted, Mr Jobs formed NeXT and vowed to pursue his passion to create the next "insanely great" PC, to follow his Apple Macintosh. But Apple's boardroom dramas continued. Mr Sculley, who became chairman and chief executive, was forced out in 1990. His successor, Mr Michael Spindler, suffered the same fate in February this year.

Although NeXT computer failed to live up to Mr Jobs' expectations, the archetypal entrepreneur went on to achieve acclaim in Hollywood following Pixar's production of *Toy Story* for the Walt Disney film studio.

Will Mr Jobs' "second coming" rescue Apple? At Apple, anything seems possible. Yet it was a calmer, less intense Mr Jobs, now 41, who stood before the Apple logo on Friday evening. He was at pains to defer to Mr Amelio, as if to demonstrate his loyalty. "It is not important to me to be involved in Apple's board," he said. "There are a lot of other things going on in my life now. I have a family. I am involved at Pixar. My time is limited, but I hope I can share some ideas."

Has Mr Jobs lost his passion for Apple? "I still have very deep feelings for Apple," he said. "A few strategic decisions can make a big difference for a company. I hope I can participate in some of those."

Combining NeXT technology with the Apple Macintosh will not be easy, but Mr Jobs' return to Apple seems sure to reignite public enthusiasm for a company that recently has lost its spark.

Louise Kehoe

INSIDE

MeesPierson
Fortis, the Belgian-Dutch insurance and savings institution, has secured for Fl 2.5bn ($1.43bn) the purchase of MeesPierson, the Amsterdam merchant bank being sold by ABN Amro, the Dutch financial services group. Page 20

Mercator
Mercator, the largest retail company in Slovenia, has raised DM140m ($90m) in the first international syndicated loan for a Slovenian private sector company. The company is planning an expansion programme and the refurbishment of about 100 stores. Page 20

Welcome Break
Michael Guthrie, former chairman of BrightReasons, the UK restaurant chain, is leading a team of venture capital investors bidding for Welcome Break, the motorway service chain owned by Granada. The UK television and leisure group must sell the 21 motorway service areas – estimated to be worth at least £300m ($492m) – for competition reasons. Page 18

Global Investor
Optimists argue Russia is poised to grow rapidly in coming decades to become one of the world's financial hot spots. For others, the picture is bleak: "Russia's new capitalists have succeeded in ripping off their own countrymen. Now they seem intent on ripping off the rest of the world," says one disillusioned investor. Page 21

African offers
Ghana's successful sale last week of a 30 per cent stake in Ghana Telecom, its national operator, to an overseas buyer is a sign of the growing number of international offers coming out of Africa as governments progress down the privatisation route. Page 21

Investment group seeks support for Mesbla shake-up

By William Lewis in London and Geoff Dyer in São Paulo

One of the world's leading emerging market investors is seeking the support of institutional investors to press for changes at Mesbla, Brazil's second-largest chain of department stores, which ran into financial difficulties last year.

Mr Mark Mobius, who heads the $10bn emerging markets division of Franklin-Templeton, the investment group, said last week that he had been contacting other international investors which are also Mesbla shareholders to see if they would be willing to take collective action.

Mesbla last year requested to go into "concordata", a process similar to US Chapter 11 bankruptcy proceedings. However, Mr Mobius disputes the company's calculation of the value of its assets.

"The company says it has gone bust but we are doubting that," Mr Mobius said. "The institutional shareholders reads like a who's who of international investors and we are saying, hey, let's get together and become a large shareholder force."

Another Mesbla shareholder, who declined to be named, said he was considering complaining to Brazil's stock market regulator (CVM). He said Mesbla's results for 1995 did not provide sufficient information for shareholders.

Mesbla refused to comment on the possibility of its shareholders taking action, and would only say it was examining a number of options about its future.

The possible action in Brazil is the latest example of Mr Mobius's aggressive policy on corporate governance in the emerging markets in which Franklin-Templeton invests. He said he refused to invest in Solidere, the Lebanese real estate company rebuilding Beirut's commercial district, because he would not have been granted full voting rights.

In August 1995, five companies in the Mesbla group, including the flagship Mesbla Lojas de Departamentos, asked for a judicial suspension of payments on debts of about R$260m ($250m).

The group, whose interests include department stores, financial services and vehicle sales, has been involved in an arduous restructuring process following mounting losses since 1990. Plagued by wrangling among the controlling de Botton family, it has been criticised for a lack of direction and poor management.

At the time of the "concordata" request, market estimates put the holding company's total debts at about R$330m, including short-term debt of about R$160m.

The concordata proposes payment in full of the five companies' debts over the next two years. The group has also been searching for new business partners. It needs fresh capital to secure its immediate and long-term future, and would welcome an injection of expertise in quality control and direct selling.

Fund management, Page 18

Predators eyed UK high-street retailer

By Christopher Price

Two UK companies have considered bids for W.H. Smith, the high-street retailer, in the past six months.

One of the biggest UK supermarket groups as well as Boots, the chemists chain, have looked at – and then pulled back from – possible takeovers. These would have valued W.H. Smith at more than £2bn ($3.34bn), according to analysts.

The bids were considered at the end of a traumatic year at W.H. Smith, during which the group overhauled its senior management. In August the group reported its first annual losses in 204 years of trading.

On Friday, W.H. Smith declined to comment on the issue – but Boots confirmed its interest, which, it said, ended several months ago.

Boots is understood to have contemplated bidding for W.H. Smith at the time of negotiations between the two companies over the future of their Do-It-All joint venture. In June, W.H. Smith eventually agreed to pay Boots £50m – over a four-year period – to take the lossmaking home improvement chain off its hands.

W.H. Smith has also been studied closely by a large UK supermarket group. A merchant banker advising the group said it had been keen to convert some high-street stores into small supermarket outlets. It also intended to take others down-market, using them to sell discounted books and records.

Both predators, however, were concerned by W.H. Smith's trading difficulties. The group issued two profits warnings in 1995 and announced annual pre-tax losses of £195m in August.

The strategy developed by the group's then chief executive Mr Bill Cockburn has won support in the City of London. He instigated a review which led to the sale of its business stationery division. Two months ago W.H. Smith reported that underlying sales growth increased by 4 per cent in the four months to the end of September compared with the same period last year.

Waterstone's, Smith's bookshop division, has seen underlying sales growth increase by 9 per cent. Underlying sales from W.H. Smith's US hotels and airports operations rose by the same amount. However, sales growth at the core high-street stores was limited to 2 per cent, while Virgin Our Price, the company's music and video division, saw underlying sales growth fall by 5 per cent.

Since August, W.H. Smith shares have fallen by 21 per cent from 532p to 421p on Friday. At that price, the group was capitalised at £1.2bn.

STATISTICS

COMPANIES IN THIS ISSUE

German venture to build 'green' dishwasher in US

By Peter Marsh in London

A German joint venture plans to sell Americans dishwashers that use European technology to save water and energy.

Bosch-Siemens Hausgeräte, the world's fifth-biggest maker of white goods, is to build a DM50m ($32.2m) factory in New Bern, North Carolina, to make upmarket dishwashers that are up to 50 per cent more expensive than US-style products. The plant will be the first in the US to use "high-tech low-pollution" designs originating from Europe.

"We think the Americans will be ready to pay more for products that are more sophisticated," said Mr Herbert Wörner, chief executive of Bosch-Siemens Hausgeräte, the venture between Robert Bosch and Siemens, two of Germany's biggest engineering companies.

The group is gambling that better-heeled US consumers are keen to switch over to European designs that hava more sophisticated water-pumping and heating systems.

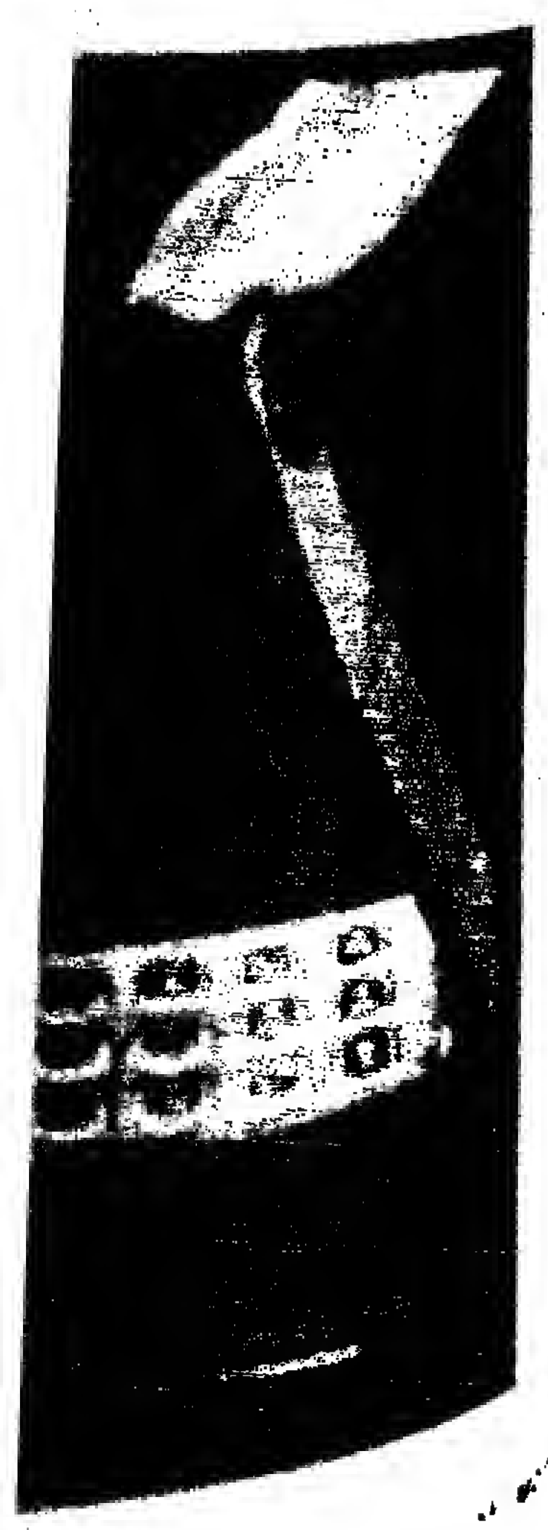
The German effort follows the strategy of Frigidaire, a big US white-goods company owned by Electrolux of Sweden, to interest US consumers in front-loading washing machines for clothes. These are claimed to cause less pollution than the conventional US-style top-loader, as well as taking up less space.

In recent years the Bosch-Siemens venture has expanded its marketing efforts in North America. It is currently importing into the US 50,000 dishwashers a year based on the European design from German plants.

The New Bern plant will make up to 200,000 dish washers a year, starting from next May. They are expected to sell for about $500, considerably more than the equivalent US-style appliance.

Of the 4m dish washers a year sold in the US, roughly 70 per cent are sold by the two US companies, Whirlpool and General Electric, respectively the world's second and fourth-biggest makers of white goods.

According to Mr Rich Dzierwa, managing editor of Appliance, a Chicago-based journal for the white-goods industry, the Bosch-Siemens move "has a good chance" of success. "At the upper end of the market in the US there is a strong demand for advanced European designs [in white goods]," he said. He also said there was strong interest among some US consumers in "green" household appliances, and that the German venture had a good chance of capitalising on this.



Returning value by governance

William Lewis on methods taken to safeguard and improve investments in companies

Wheo a fund management group provides a private jet for one of its star managers to use, eyebrows are bound to be raised. Add to tbat another investment bouse marketing a new investment fund based on the findings of a report publisbed by the Royal Society of Arts, and it signals to some that the peak of an overbeated bull market has been reached.

But the private jet and investment fund are actually manifestations of a different trend at work in the UK and other markets: fund managers seeking to safeguard, and improve, the returns they get from the companies in which they invest by focusing on corporate governance.

Mr Mark Mobius, who co-ordinates the investment of more than $10bn for the Franklin-Templeton group, uses the private jet to make regular visits to companies in which the group's 35 emerging market funds hold shares. A key part of the group's investment strategy, Mr Mobius said last week, is to be an "active investor", for example by voting and attending meetings.

A UK unit trust launched last montb by Kleinwort Benson Investment Management, owned by Dresdner Bank, goes one stage further. It will only invest in companies that comply with the "inclusive approach" of the Tomorrow's Company inquiry of the RSA.

This means companies putting in place a series of corporate governance structures and systems, such as cbanging adversarial attitudes that normally mark relations between companies in the supply cbain, and reducing dependence on financial measures of success.

Fund managers at KBIM say that a share price portfolio of about 30 companies qualified to be included in the Tomorrow's Company fund increased by 90 per cent between December 1992 and June 1996, outperforming the FTSE All-Share, which rose by 35 per cent.

Mr Paul Sbeehan, tbe fund's manager, argues that this showa that good corporate governance leads to better returns for shareboldors: "Over five years we would expect to see the shares of TC [Tomorrow's Company] companies substantially outperform".

KBIM has developed a score-card test to help determine whethar companies should be included in the fund.

On top of the usual financial analysis, KBIM has

FUND MANAGEMENT

eatablished a governance committee, chaired by Sir Anthony Cleaver, chairman of AEA Technology and of the Tomorrow's Company inquiry, to rula on whether KBIM's choices do comply with the inclusive approach.

KBIM remains reluctant to disclose which companies fail to pass the test, but says that conglomerates and companies in the construction and property sectors are unlikely to qualify. British Telecommunications, Zeneca, AEA Technology and Bank of Scotland are likely contenders for tha fund to invest in, hut top of the buy list is FI Group, the information technology company floated on the London Stock Exchange in March.

With 48 per cent of the shares owned by FI staff, an active community programme and strong share price performance, Mr Sheehan describes it as the "archetypal TC company".

While Franklin-Templeton's emerging markets team does not require companies to meet Tomorrow's Company-type corporate governance standards, Mr Mobius is adamant about tha need for investors to be guaranteed basic rigbts, such as disclosure of basic financial data and voting.

For example, Mr Mobius saya that last month he refused to invest in Solidere, the Lebanese real estate company rebuilding Beirut's commercial district. Merrill Lynch acted as lead manager of the $77m issue of global depositary receipts, designed to offer foreign investors an exposure to a company whose by-laws restrict direct stock ownership to Lebanese and Arah nationals. "We like the idea of the Lebanon, but they were very misguided to not allow foreigners to vote or attend shareholder meetings," Mr Mobius said.

This hardline policy appears to be serving investors well. The net asset value of Templeton Emerging Markets investment trust has increased since July 1989, on a total return basis, by 309.9 per cent, compared with 190.2 per cent for the IFCI Composite Index, and 74.6 per cent for the MSCI World Index.

The signs are that Mr Mobius intends to step up the group's corporate governance campaigning. Last week he disclosed that he was boping to persuade other investors to join together in an attempt to improva the return they have had from Mesbla, Brazil's second biggest department store group, which last year requested to go into "concordata", a process similar to US Chapter 11 bankruptcy proceedings.

"The company says it is has gone bust, but we are doubting that," Mr Mobius said. "Tbe institutional shareholders reads like a wbo's who of international investors, and we are saying, 'Hey, let's get together and become a large shareholder force'".

Former BrightReasons chairman leads venture capital team

Bidders for Welcome Break

By Scheherazade Daneshkhu
Leisure Industries Correspondent

Mr Michael Guthrie, former chairman of BrightReasons, the UK restaurant chain, is leading a team of venture capital investors to buy Welcome Break, Granada Group's motorway service chain.

Granada, the UK television and leisure group, must sell the 21 motorway service areas – estimated to be worth at least £300m ($492m) – for monopoly reasons. It acquired tbe sites through its £3.9bn takeover of Forte, the UK's largest hotels company, in January.

Mr Guthrie was previously chairman of Pavilion, the motorway service group sold to Granada in April 1995 for £125m. That deal made Granada Britain's largest motorway service operator.

Also pitched against Mr Guthrie is Whitbread, the brewer and leisure group which last month paid £46m for BrightReasons. Other bidders include Mr Gerald Ronson, head of Heron International, the property group which is on the acquisition trail after being rescued last year by a US investor group.

The UK's four largest food retailers – Sainsbury, Asda, Tesco and Safeway – say they are not hidding. It is also believed that McDonald's and Burger King, the fast food operators which have outlets on some of the sites, are not bidding.

Granada sent out 40 sales memorandum three weeks ago. Bidders selected for the second round will get access to more detailed data about Welcome Break in January. Second indicative offers are scheduled to be submitted by the beginning of March.

One company said last week that it had received the sales document, but had neither solicited it nor intended to bid. Schroder Ventures, the venture capital group, said that it had decided against hidding. Some companies said they were put off by the auction process.

Granada intends to finalise the sale in March, a month before the department of trade and industry's deadline for disposal on April 25.

Whitbread, which owns Travel Inn, the fast-expanding budget chain of hotels, has already tried once to buy the service areas, 15 of which have Travelodge budget hotels on them.

Forte agreed to sell its restaurants, budget hotels and motorway service stations a year ago to Whitbread for £1.05bn in an attempt to head off Granada'a hostile bid.

Granada has been in no hurry to sell the motorway service areas. Under the terms of the Forte/Whitbread agreement, if Forte sells any of these businesses to a company other than Whitbread before December 31 1996, it is obliged to pay Whitbread 50 per cent of any difference in price.

Punished by a parochial jury

Robert Rice investigates GKN's nightmare $554m bill

GKN, the UK automotive components and defence equipment group, last week became a victim of what US lawyers call an "inflamed parochial jury".

It is facing the prospect of having to pay $398m (£238m) to franchisees at one of its US car parts subsidiaries, following an unexpectedly high damages award from a jury in Charlotte, North Carolina. The district court jury found that Meineke Discount Muffler Shops, GKN's US specialist exhaust retailer, had breached its contractual obligations to its franchisees over advertising spend.

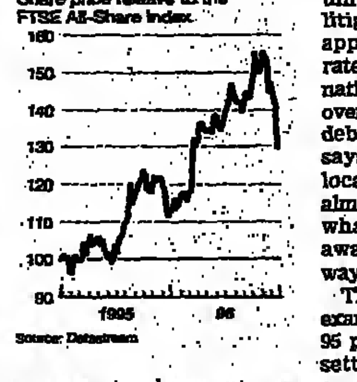
It awarded the franchisees $31m compensation for the shortfall in advertising spend, $122m in compensatory damages for loss of profits resulting from the reduction in advertising expenditure, $150m in punitive damages and $95m in interest.

GKN now faces an anxious month while the trial judge deals with post verdict issues such as whether Meineke is guilty of unfair trading under North Carolina statute law. If he finds that it is, GKN could then be faced with paying triple damages, taking the final bill to $554m. On the other hand, the judge may reduce the damages if he considers them excessive."

Mr Evan Tager, a litigation partner at US law firm Mayer Brown & Platt, says state "unfair trading statutes" often provide for double or triple compensatory damages if the judge decides that a claim of unfair trading is proved. If he concludes, however, that the defendant should pay triple damages then the punitive damages element often disappears – because an award of punitives on top of triple damages would amount to double punishment.

In GKN'a case a tripling of the compensatory damages plus the $95m interest would take the total bill to $554m. GKN has vowed to appeal whatever the judge decides in January, and, says Mr Tager, on tbe surface it

GKN
Share price relative to the FTSE All-Share Index



Source: Datastream

appears to have strong grounds.

"There could be a large element of parochialism in this verdict. It often happens when you have an out-of-state, or, even better, a foreign corporation as defendant, the 'sock it to the foreigners and help out the locals mentality' prevails".

Mr Tager says if the damages exceed the amount asked for in the original claim – as appears to be the case here – it is often a good indication of "an inflamed jury" and provides good grounds for appeal.

Mr Gary Born, a partner of US law firm Wilmer Cutler & Pickering, aays punitive damages are a "particularly unfortunate" aspect of US litigation, especially when applied to non-US corporates. "The impact on international businesses is often overlooked in the domestic debate on punitives," he says. "Yet they often face local juries wbo are left almost entirely free to decide what punitive element to award with very little by way of legal standards."

Tha GKN case is a classic example of why more than 95 per cent of US civil cases settle before they get to court, ha adds. "The jury system is not well suited to modern business disputes because it is too unpredictable."

So, his advice to international companies operating in the US is to act earlier. International companies need to "pay close attention to their US operations, minimise legal risk and make sure litigation of this sort settles early by paying very serious attention to it all along, and exploring every possible settlement opportunity".

It is a lesson GKN may end up paying a small fortune to learn.

United Utilities to sell Keadby in new year

By Jane Martinson

United Utilities, the UK multi-utility, expects to announce the sale of the Keadby power station to Scottish Hydro-Electric at the start of the new year.

Hydro-Electric already owns 50 per cent of the gas-fired power station on the River Humber, and is the preferred bidder for the sale.

Mr Brian Staples, United's chief executive, said there were "no significant problems to completing the deal" shortly after Christmas.

The disposal had been expected for some time: earlier this month Hydro, based in Perth, announced at the time of its interim results that it was the preferred and bidder. However, last week it said that "no final agreement had been reached".

United had said that it wanted to sell a number of generating assets as part of a disposal programme to raise at least £400m ($668m) by March 1997.

The announcement followed the £1.8bn takeover of Norweb, the regional electricity company, by North West Water. Norweb was Scottish Hydro-Electric's partner in the venture.

The generation assets are the last remaining disposals to be made by United under its current programme, and it has been estimated that Keadby could realise £250m.

Hydro-Electric is also intending to invest a further £100m in 1998 in the Seabank power station near Bristol which it is building with British Gas.

The group faces some pressure to make a statement about its balance sheet strength.

Even after the Keadby deal and the Seabank investment its gearing is expected to peak at 65 per cent in 1998/99.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**

Abbey Natl Treasury Svs 6.5% Gtd Nts 1998 £16.25
Do 7% Gtd Nts 1996 C£70.00
Commercial Loans on Investment Property Securitisation (No.1) Class A Mrtg Bckd FRN 2009 $123.99
Do Class M1 Mrtg Bckd FRN 2009 £173.42
Do Class M2 Mrtg Bckd FRN 2009 £178.39
Class B Mrtg Bckd FRN 2009 £251.74
FECSA - Fuerzas Electricas de Cataluna 7.81% Global Nt A 2001 Pta78,100,000
Do 7.81% Global Nt B 2001 Pta78,100,000
Do 7.81% Global Nt C 2001 Pta78,100,000
Fleming Chinese Inv Tst 0.5p
Ford Credit Europe FRN 2001 £14.98
Guinness Finance Australia 10.5% Gtd Nts 1997 A£105.00
Halliburton £0.25
Hambros 2.5p
Do N/Vtg 2.1p
Hercules $0.23
Lowland Inv Co 7p
Marks & Spencer Finance £73.75
Mazda Motor 4.05% Bds 2001 Y405,000
Mitsui UK Step-Up Nts 1997 Y4,000,000
Peugeot Motor 7¾% Gtd Nts 1997 £76.25
RTZ Canada 7¾% Gtd Bds 1998 £362.50
Sainsbury (J) 3.5p
Do 8.25% Nts 2000 £8.25
Sentrachem R1.00
Smart (J) 8.9p
Woolwich Bldg Scty 10⅛% Sb Nts 2017 £1,012.50
Do FRN 1999 £149.18
Yen Foong Yu Paper Manufacturing 2% Bds 1999 $200.00

■ **TOMORROW**

Boots 10⅛% Bds 2017£2,531.25
Bradford & Bingley Bldg Scty Sb FRN 2005 £18,841.78
Coats Viyella 4.625p
Furukawa Electric FRN March 1998 Y19,155
Do FRN June 1998 Y19,155
HSBC Americas Sb FRN 2009 $146.93
Manchester Corporation 3% Red Consd £0.75
Do 4% Consd Irred £2.00
Mitsubishi Oil 4.2% Bds 2003 Y420,000
SGW Finance Gtd FRN 1998 £15.20
Standard Chartered Undtd Prim Cap FRN £76.14

■ **FRIDAY DECEMBER 27**

Bank fur Arbeit und Wirtschaft Sb FRN 1999 $301.82
Black & Decker $0.12
Bodycote Intl 2.8p
Financial Receivables For Securitised Transactions No.4 Mezz Asset-Bckd FRN 2010 £1,820.08
Do Senior Asset-Bckd FRN 2010 £829.25
Fisher Intl 0.16p
Fleming Worldwide Income Inv Tst 1p
Do Red Div 8.87p
Do Units 1p
Fuji Bank Intl Finance Undtd Sb Gtd VRN Y23,452
Geest 3.7p
Havelock Europa 1.45p
Republic of Ireland 6.5% Exchequer 2000/05 IR£3.25
Republic of Italy FRN 2000 $292.29
Jersey Phoenix Tst 1.5p
Metropolitan Water Board Kent Water Works 3% £1.50
Midland Bank Undtd Prim Cap FRN $305
NationsBank $0.66
Residential Property Securities No.3 Class A2 Mrtg Bckd FRN 2025 £1,395.19
Do Class B Mrtg Bckd FRN 2025 £1,788.99
Sabre Intl (No.2) Series P Variable Rt Secd Nts 1998 Y20,868
Skipton Bldg Scty Sb FRN 2000 £33,779.80
Stars 1 Class A FR Mrtg Bckd Securities £93.78
Sumitomo Realty & Dev. FRN 1997 Y773,361
Thames Asset Global Securitisation No.1 Class A1 FRN Asset Bckd 2037 £1,294.12
Town Centre Securities 10.5% 1st Mrtg Deb 2021 £5.25
Tuntex (Thailand) Public $177.26

UK COMPANIES

■ **TODAY**

BOARD MEETING:
Interim:
Ivory & Sime

■ **FRIDAY DECEMBER 27**

COMPANY MEETING: Hollas Group, 1, New Change, E.C., 11.00

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent annoucements.

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me Break

WEEK AHEAD

COMPANIES AND FINANCE

Financing package for Slovenian retail group

By Kevin Done, East Europe Correspondent

Mercator, the largest retail company in Slovenia, has raised DM140m ($90m) in the first international syndicated loan for a Slovenian private sector company.

The group, which completed its privatisation in October 1995 and is quoted on the Unlisted Securities Market C of the Ljubljana stock exchange, is planning an ambitious expansion programme, with the construction of new supermarkets and hypermarkets and the refurbishment of about 100 existing stores.

The financing package has been arranged jointly by the European Bank for Reconstruction and Development and Union Bank of Switzerland. The syndicate banks include Bayerische Vereinsbank, Dresdner Bank Luxembourg, Kredietbank, Creditanstalt and Société Générale.

Mercator is the largest stock on the unlisted market and is capitalised at more than $100m. It currently accounts for around 60 per cent of the trading volume of Market C, which was introduced in January 1996 to allow trading in shares of public companies that do not yet fulfil the requirements for an official listing.

In addition to expanding its stores network, Mercator is restructuring its retail and distribution activities with the introduction of new management information and electronic sales systems.

Mercator operates more than 650 stores throughout Slovenia with annual sales of more than DM1.3bn. It has 10,000 employees and about 43,000 shareholders.

Of the DM140m financing package, the EBRD is providing DM60m (with a nine-year maturity) and the international commercial banks DM80m (seven years).

The deal reflected "the willingness of international banks to accept, for the first time, long-term exposure to private Slovenian companies", said Ms Noreen Doyle, EBRD deputy vice-president.

The loan is the largest EBRD project so far in the private sector in Slovenia, which is the most prosperous of the former communist states of central and east Europe.

Bata India rights issue to cut debt

By Kunal Bose in Calcutta

Bata India, the country's largest shoemaker, which is 51 per cent owned by Bata Shoe Organisation, is raising Rs771.42m ($21.55m) via a rights issue. The money will be used to cut debt and increase production.

The issue of 25.714m shares, on a 1-for-1 basis at Rs30 each, including a premium of Rs20, could not be underwritten because of the reluctance of institutions and broking houses to take risk during a prolonged bear phase on the market. However, BSO has undertaken to subscribe fully to its rights.

Bata India is expected to make a small profit of about Rs20m in 1996, compared with a record loss of Rs421m a year earlier, following 18 months of restructuring. In March, BSO gave the company an interest-free loan of $10m to reduce debts and creditor outstandings. Bata India said it would pay Rs190m in interest during 1996.

Bata has been a household name in India for six decades, selling durable shoes at affordable prices. A recent change in strategy to high-priced, premium shoes was not a success, and the group is once again targeting the volume shoe market.

Fortis pays Fl 2.5bn for MeesPierson

By Gordon Cramb in Amsterdam

Fortis, the Belgian-Dutch insurance and savings institution, has secured for Fl 2.5bn ($1.43bn) the purchase of MeesPierson, the Amsterdam merchant bank which can trace its origins back 275 years.

The acquisition will rank Fortis among the top three financial services companies in the Benelux region and make it the fourth-largest bank in the Netherlands. MeesPierson is being sold by ABN Amro, the Dutch market leader, which found it an awkward fit with its other investment banking operations, notably the London stockbroker Hoare Govett.

The price was at the upper end of expectations, although Fortis said it was based on the unit's year-end net equity including 1996 profits.

Mr Joost Kuiper, MeesPierson chairman, said earnings would be above the Fl182m before extraordinary items recorded for last year.

Mr Kuiper is to join the Fortis board and become vice-chairman of its Dutch operating division. Mr Robert van der Meer, head of Fortis's Dutch investment side, will be vice-chairman at MeesPierson.

A reorganisation will put together the enlarged group's capital management activities, while MeesPierson will inherit financial services for corporate clients and group companies.

The deal is to be funded in part through equal cash contributions from the Brussels-quoted Fortis AG and Fortis Amev, its Utrecht-based sister company which has a separate listing in Amsterdam. The group said Fortis AG was considering a rights issue early next year.

The takeover would be positive for earnings per share next year and, while involving some Fl 500m in new debt, would help it maintain a strong solvency position, Fortis said.

MeesPierson has assets under management of Fl 55bn and 2,867 staff. Revenues of Fl 701m for the first half of this year reflected equal contributions from interest and commission income.

As a result, fee-based sources would have accounted for 17 per cent of banking revenues for the merged group in that period, compared with only 9 per cent for Fortis alone.

Interest income would have provided two-thirds of banking receipts for Fortis rather than three-quarters.

Fortis Amev shares closed Fl 1 higher at Fl 58.80 in Amsterdam on Friday. ABN Amro rose Fl 1.90 to Fl 110.80.

NEWS DIGEST

Moulinex reduces first-half net loss

Moulinex, the troubled French manufacturer of kitchen equipment, has cut its net loss to FFr74m ($14.1m) for the six months to September, from FFr121m in the same period of 1995. It also forecast sustained improvement up to the end of its current financial year next March.

The loss reduction was mainly attributed to external factors, such as cheaper raw materials, more favourable exchange rates and lower interest rates on its debt. Sales for the half-year rose 2.6 per cent to FFr3.35bn.

The Moulinex board confirmed its plan for a FFr500m capital increase in 1997 to improve its debt-to-equity ratio. The company said its recovery plan would only show an impact in 1997-98, because it involved job reductions and factory reorganisation plans which had only just been put to the unions. *David Buchan, Paris*

Belgian steelmaker spared

Forges de Clabecq, the ailing Belgian steelmaker, won a stay of execution when a commercial court decided not to declare it bankrupt but to appoint two experts to examine ways of saving parts of the business. The company had filed for bankruptcy after the regional government of Wallonia, Belgium's French-speaking southern region, withdrew support from the company, which employs 1,700 people. The European Commission on Wednesday blocked a BFr1.5bn ($47m) rescue package for the steelmaker, because it contravened EU state aid rules.

A takeover seems unlikely, as two other Walloon steelmakers, Cockerill Sambre and Usines Gustave Boë have both said they have no interest in rescuing any part of Clabecq. Analysts believe the company can only survive in a slimmed-down form, after restructuring its debts. *Neil Buckley, Brussels*

Almaty deal for Tractebel

The Kazakhstan subsidiary of Tractebel, the Belgian utility, has signed contracts with Kyrgyzstan that it says will prevent power cuts in the Almaty province. Almaty Power Consolidated, which Tractebel bought in August for $5m, had been strongly criticised after a series of blackouts blamed on its privatisation.

"When we went there, it was a post-Soviet state-run enterprise with a lot of inherent problems," said Mr Nicolas Atherinos, senior vice-president of Tractebel's electricity and gas international division. APC has now built up coal stocks from three to 80 days' supply, and thermal power generation output has risen from 400MW to about 600MW. *Reuter, Brussels*

Fletcher Challenge sells forest

Fletcher Challenge Forests is to sell its North Island East Coast Forest to Glenealy Plantation (Malaya) Berhad for NZ$210m (US$149m). Glenealy plans to build a processing plant to handle the output from the 24,800 hectares of radiata pine forests when the timber starts to become available in four years. Glenealy, a publicly listed company in Malaysia, is 52 per cent owned by the Samling Group. *Terry Hall, Wellington*

Indonesian toll group ahead

Net income at Citra Marga Nusaphala Persada, the Indonesian toll road operator controlled by President Suharto's eldest daughter, rose nearly 40 per cent to Rp93.2bn ($39.5m) in the first nine months of 1996, helped by toll road fare increases and the completion of the main inner ring road in Jakarta.

Revenues rose 42 per cent to Rp154.4bn and earnings would have been higher but for an unexpected tax charge of Rp5.05bn believed to be related to a transaction conducted in 1994. The government has increased toll road rates for cars twice in the past 15 months, amounting to an effective increase of 50 per cent. *Manuela Saragosa, Jakarta*

Endesa case tests regulator's powers

CNMV may make example of one of Spain's most important companies

A legal battle with profound consequences for corporate Spain broke out last week between the country's stock market regulator and one of the top domestic blue chip companies.

At issue is whether Endesa, a government-controlled electricity utility that accounts for nearly 10 per cent of the Madrid bolsa's capitalisation, broke regulatory rules by withholding takeover plans from the CNMV, the stock market commission.

Though the unprecedented suit by the CNMV could cast a shadow over the government's 1997 privatisation programme, it is also a welcome signal that the rules must be observed whatever the size of the company.

"This a positive development that clearly shows the commission's independence," says Mr Cesar Molinas, a senior executive at Merrill Lynch's Spanish broking unit and a former CNMV director.

The bolsa has admirable electronic systems that, in theory, ensure total transparency of share movements. But the risk of insider dealing exists in Madrid as it does elsewhere and the proceedings opened against Endesa are a test case of the CNMV's power.

"It's a magnificent development for the markets," says Mr Salvador Garci Atance, managing director of AB Asesores, a big Madrid securities house. "The commission is sending a serious message to the government that transparency applies to everybody and listed state-controlled companies must respect the rights of minority shareholders."

The CNMV alleges that Endesa misled the regulatory authorities during a mid-October takeover of two regional generators, Sevillana and Fecsa. Endesa's share price had started to climb sharply following a report by Expansión, Spain's leading business newspaper, on October 10 that the utility planned to increase its equity in Sevillana and Fecsa, where it controlled 40 per cent and 49 per cent of the shares, respectively.

The transactions took place in the same week that Mr Juan Fernández-Armesto was appointed CNMV chairman for a four-year term. On October 14, Mr Fernández-Armesto asked Endesa whether the report was true. He was allegedly told by the utility's veteran chairman, Mr Feliciano Fuster, that Endesa neither planned nor intended to launch takeovers.

The CNMV chairman claims he was misled because Endesa was drawing up the final details to agreed bids, worth Pta200bn ($1.52bn), that lifted its equity to 75 per cent in both the regional generators. The commission suspended bolsa trading in all three utilities on October 18, hours before the government announced the transactions.

The suit represents a baptism of fire for Mr Fernández-Armesto, who says deregulation in a global market environment must be accompanied by greater transparency and corporate responsibility. He has pledged swift and exemplary action against those flouting CNMV rulings which explicitly state that the regulator must be informed of market-sensitive information.

Feliciano Fuster: allegedly misled commission

For Endesa, which is 66 per cent government-owned, and for Mr Fuster, who is the only head of a big public company to have remained in his job when the centre-right government took office in May, the proceedings could have very serious consequences.

If the charges stick, the utility faces a maximum fine of Pta35bn, the equivalent of 5 per cent of its equity at the time of the takeovers, and the commission could limit or suspend its operations on the market for up to five years.

Mr Fuster faces a minimum fine of Pta50m and a ban of up to 10 years on running a public company.

Endesa said in a statement it would contest the CNMV's charges because it had "scrupulously" informed the commission of its takeover plans "as soon as it was possible to conclude that they [the takeovers] could be undertaken".

Indicating that the final say on the transactions belonged to the government, Endesa claimed that "as a state company", the takeover decisions had neither been taken, nor were legally possible, when the CNMV requested information on the transactions.

Tom Burns

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor/ John Thornhill

Russia: hot spot or black hole?

Russia has long been a country of extremes, be it its weather, its politics, or its rate of alcohol consumption.

That tendency has in turn provoked extreme reactions among foreigners. But whereas it was once politicians and generals who argued about how to interpret Russia, now it is more likely to be fund managers.

Some view Russia as "the mother of all emerging markets", stuffed with natural resources and 150m highly-educated people, which could develop into one of the world's great financial hot spots early in the next century. Others see it as an investment "black hole" into which capital will simply disappear.

"Russia's new capitalists have succeeded in ripping off their own countrymen. Now they seem intent on ripping off the rest of the world," is one of the milder comments expressed by one disillusioned investor.

But as Russia rapidly re-enters the world economy after seven decades of failed autarky and emerges as a presence on international capital markets, it is a country which only a dwindling band of fund managers can entirely ignore.

A recent string of international capital markets transactions has put Russia on the map. Last month's launch of its first sovereign bond issue since 1917 has opened the way for municipal authorities and corporations to follow suit.

The successful placement of 1.15 per cent of Gazprom's shares abroad in October for $429m (£257m) could tempt other large privatised companies to do similar deals.

Mr David Curl, director of Regent Fund Management, one of the biggest foreign funds active in Russia, argues there are undoubtedly risks in owning Russian assets – but that these are more than offset by their "ridiculously low" valuations. Such was the political imperative to remove the state from the economy that Russia privatised 110,000 asset-rich companies at near give-away prices.

"We think Russia is by far and away the cheapest market in the world, and we think its pace of change has been dramatically faster than any other emerging market we have ever seen, both in terms of economic reform and the development of the stock market."

Mr Curl points to companies such as UES, the dominant power utility, which currently has a market value of $3.5bn, a mere fraction of the replacement cost of its assets; or Surgutneftegaz, valued at $2.2bn, with oil reserves equal to the biggest western oil groups.

The optimists argue that the IMF-backed economic stabilisation programme is finally bearing fruit, with inflation tamed, the rouble steady, and interest rates tumbling. It is only a matter of time before an investment boom ignites in Russia, they say. Companies could be revalued upwards by as much as 50 times.

But strong counter-arguments can be made. A short-term concern is that Russia remains a trading, not an investment, market, which has simply been the unwitting beneficiary of "irrational exuberance".

When Moscow stockbrokers report Wall Street fund managers are buying second-tier regional telecoms companies whose names they cannot pronounce and whose accounts they have not read then many observers might wonder if Alan Greenspan did not have a point. When greed prevails over fear to such an extent, is this not a screaming signal to sell?

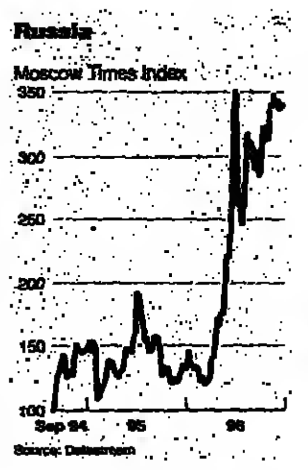
A serious concern is that Russia is still plagued by huge economic problems.

A flawed tax regime, shaky property rights, and poor corporate governance will deter investment and frustrate economic recovery. In the absence of such structural reforms, Russia could remain the only emerging market which shows no signs of emerging.

A further concern is that Russian directors are still neophyte capitalists who have little understanding of what profits mean, and even less regard for the rights of their companies' nominal owners.

Almost every year could be described as a pivotal one in Russia's recent history. But 1997 really could be the critical year as far as western investors are concerned. The next 12 months will demonstrate whether the government has the will to forge an open, competitive economy or whether the corporate cronyism that currently encrusts the Kremlin will prevail, stifling the much-needed reforms.

Many a cautious fund manager might want to wait to see the outcome of that struggle before committing funds. Some will be tempted by the sales patter that one must move fast to catch the bargains. But if the long-term bull argument really holds good, plenty of opportunities still lie ahead.



Total return in local currency to 19/12/96

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.10	0.01	0.06	0.06	0.15	0.11
Month	0.45	0.04	0.26	0.26	0.63	0.51
Year	5.44	0.50	3.59	5.25	10.44	6.31
Bonds 3-5 year						
Week	0.21	0.38	0.28	0.27	0.73	0.04
Month	-0.15	0.72	0.57	0.80	0.42	0.03
Year	4.25	3.59	7.02	11.02	23.25	5.81
Bonds 7-10 year						
Week	0.42	0.72	0.55	0.19	1.02	0.41
Month	-0.68	1.18	0.29	0.49	0.81	-0.08
Year	2.88	6.90	8.26	13.64	34.93	7.22
Equities						
Week	2.2	-2.5	-1.1	1.5	3.4	1.5
Month	0.7	-5.4	1.6	1.1	0.3	2.0
Year	24.3	-2.3	25.8	31.5	12.6	17.6

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Actuaries Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

INTERNATIONAL EQUITIES/By Joel Kibazo

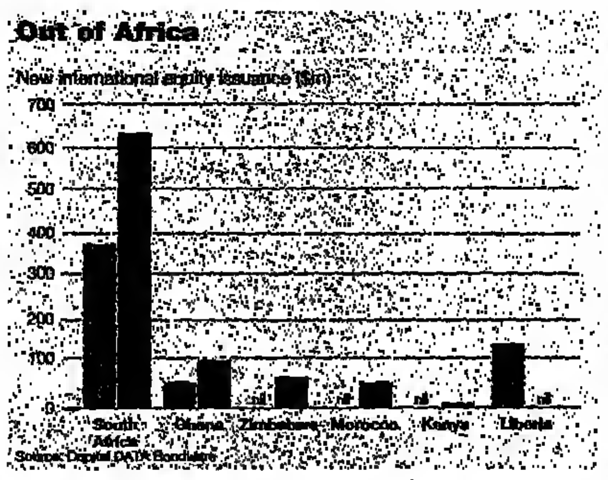
Enticement comes out of Africa

Ghana's successful sale of a 30 per cent stake in its national telecoms company to an overseas buyer, announced last week, is a sign of the growing number of international offers coming out of Africa.

The holding in Ghana Telecom was bought by Volta Communications, a company controlled by Telekom Malaysia. Volta will assume the management of GT. The international contest of prospective buyers included Deutsche Telekom, KPN of the Netherlands, Western Wireless and Lightcom, both from the US, and Telkom of South Africa.

Senegal and Ivory Coast are now in the final stages of their telecom sales, while international offers are expected next year in Uganda, Tunisia and South Africa, where a stake in the national telecoms operator may fetch about $3bn.

However, international offers in Africa have not only been confined to telecoms. There was the international public offer for Ashanti Goldfields of Ghana in 1994, and this year KLM, the Dutch carrier, took a strategic stake in Kenya Airways, a once troubled state owned carrier that was successfully privatised in June.



The main reason for the growing number of offers has been the adoption by many governments of structural adjustment programmes that has left little scope for funding badly-managed public utilities.

A majority of offers have come from government-owned companies in the process of being sold off or restructured, and analysts believe the number will grow as more governments follow the privatisation route.

Mr Adebayo Alade-Loba, vice-president in the Global Project Finance Group at CS First Boston, the US investment bank which was adviser to the Ghana government on the recent sale said: "We expect to see an acceleration of large, private sector-led infrastructure financings in telecoms, power generation and oil and gas transportation as the private sector becomes more skilled in structuring limited recourse project financings."

Most of the African international offers have been trade sales rather than IPOs.

The government decided with Ghana Telecom that the sale would be conducted under a single round, sealed-bid auction. After meeting the technical threshold, bidders were required to submit a sealed envelope with a price they were willing to pay for the holding.

Many impending deals are likely to take a similar route. Mr Kofi Bucknor, executive director for Africa at Lehman Brothers, the US investment bank, said: "What we see in most cases are companies that are being restructured away from state ownership. A trade sale makes sense as the company is prepared for a new commercial environment and to be re-rated. Once it is back on a high growth track that is when an IPO makes sense – I can see IPOs happening in companies which are now the subject of a trade sale."

Investors in Africa have welcomed the growing trend for international offers particularly those seeking a strategic partner. Mr John Legat, a fund manager with LGT Asset Management, one of the biggest UK investors in Africa, says he is more encouraged to invest in an African company which has a reputable strategic partner that will also help restructure the company's management. "That way the local company can get an injection of capital and technology which, in most cases, is what is needed."

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY DECEMBER 20 1996 US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	THURSDAY DECEMBER 19 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	217.13	14.3	193.15	156.70	175.41	181.66	6.9	4.22	212.24	189.27	153.00	172.14	177.90	224.61	188.44	189.48
Austria (24)	186.59	6.9	165.98	134.66	150.74	150.67	16.1	1.90	184.68	184.70	133.18	149.79	149.72	195.04	170.57	170.57
Belgium (27)	225.23	7.7	200.35	162.54	181.95	177.74	17.1	3.76	222.58	198.49	160.45	180.53	176.52	229.11	203.64	204.79
Brazil (28)	187.50	35.9	166.79	135.31	151.47	358.28	45.2	1.71	186.77	166.56	134.64	151.48	356.93	169.70	135.21	135.21
Canada (115)	187.94	26.8	167.18	135.63	151.83	186.06	26.9	1.96	187.26	167.00	134.99	151.89	185.34	196.24	146.65	146.65
Denmark (30)	339.14	17.4	301.66	244.75	273.98	274.45	26.1	1.68	335.44	299.14	241.81	272.07	272.30	340.41	282.32	282.55
Finland (24)	240.20	28.4	213.67	173.35	194.04	233.75	37.1	2.15	237.15	211.49	170.95	192.35	231.81	244.11	173.38	173.38
France (93)	209.33	18.7	186.21	151.07	169.11	172.28	25.2	2.84	205.72	183.45	148.29	166.85	170.08	212.49	172.94	172.94
Germany (58)	188.51	13.9	165.91	134.80	150.67	150.67	23.7	1.60	183.03	163.22	131.94	148.45	148.45	189.86	162.12	162.12
Hong Kong (58)	497.48	28.8	442.53	359.02	401.89	494.18	28.4	3.15	487.38	434.63	351.33	395.30	484.22	513.18	379.02	379.02
Indonesia (27)	225.42	–	200.52	162.68	182.10	326.43	–	1.56	223.75	199.54	161.29	181.48	323.60	–	–	–
Ireland (16)	313.39	22.8	278.77	226.18	253.17	268.67	18.7	3.44	311.74	278.00	224.72	252.84	265.70	321.14	250.17	251.28
Italy (58)	81.74	10.9	72.71	58.99	66.03	93.28	6.8	2.23	81.65	72.82	58.86	66.23	93.54	94.53	69.68	69.68
Japan (480)	131.52	-15.1	116.99	94.92	106.25	94.92	-6.0	0.81	131.02	116.84	94.44	106.26	94.44	164.68	131.02	153.65
Malaysia (107)	585.84	20.8	521.13	422.79	473.27	569.96	20.1	1.09	585.18	521.80	421.80	474.59	568.95	607.65	477.96	486.56
Mexico (27)	1206.91	18.5	1073.61	871.01	975.01	10348.78	18.6	1.07	1210.27	1079.29	872.44	981.62	10410.66	1325.65	1034.29	1034.29
Netherland (19)	325.28	19.3	289.35	234.75	262.78	258.84	29.7	2.88	320.63	285.93	231.13	260.05	256.25	328.12	267.71	267.71
New Zealand (14)	91.89	15.4	81.74	66.32	74.23	68.85	6.4	4.05	91.03	81.18	65.62	73.83	68.38	94.40	75.94	77.76
Norway (35)	283.81	22.8	252.29	204.68	229.12	249.02	25.8	2.03	279.29	249.07	201.33	226.53	245.88	286.15	223.44	223.78
Philippines (22)	204.22	–	181.67	147.38	164.98	267.67	–	0.82	201.22	179.45	145.05	163.21	263.69	–	–	–
Singapore (43)	413.72	1.6	368.03	298.58	334.23	266.84	0.5	1.03	414.56	369.70	298.84	336.24	267.29	465.21	371.28	402.81
South Africa (44)	312.88	-18.8	278.30	225.79	252.74	320.20	4.3	2.46	308.81	275.39	222.61	250.47	315.31	437.76	301.49	365.43
Spain (37)	211.10	27.8	187.79	152.35	170.54	209.27	37.8	2.95	207.88	185.38	149.84	168.59	206.97	211.10	161.05	162.40
Sweden (48)	414.65	32.9	368.86	299.25	334.98	418.99	38.8	2.03	410.39	365.98	295.83	332.86	416.69	416.67	295.31	299.45
Switzerland (37)	236.69	0.3	210.55	170.82	191.21	195.96	16.4	1.51	235.55	210.06	169.80	191.05	195.57	254.34	219.29	230.77
Thailand (45)	96.75	-42.5	86.07	69.82	78.18	96.18	-41.5	3.57	101.78	90.77	73.37	82.55	101.13	193.95	96.75	167.54
United Kingdom (213)	273.00	18.4	242.85	197.02	220.54	242.85	10.3	3.92	270.44	241.17	194.95	219.35	241.17	273.93	223.84	223.84
USA (623)	304.56	21.2	270.91	219.79	246.03	304.55	21.2	1.97	303.34	270.51	218.67	246.03	303.34	307.82	243.34	247.03
Americas (793)	278.29	21.5	247.55	200.84	224.82	234.14	21.6	1.96	277.21	247.21	199.83	224.84	233.23	281.50	222.53	225.20
Europe (720)	233.21	18.1	207.45	168.30	188.40	201.62	18.7	2.88	230.51	205.56	166.17	186.96	199.98	234.56	195.45	196.45
Nordic (137)	354.40	28.5	315.25	255.78	286.30	312.59	33.7	2.00	350.42	312.49	252.60	284.22	310.35	355.51	264.60	264.60
Pacific Basin (873)	150.08	-9.2	133.50	108.31	121.24	109.21	-1.9	1.29	149.18	133.02	107.52	120.98	108.46	177.01	149.16	163.81
Euro-Pacific (1593)	184.64	2.6	164.24	133.25	149.16	144.07	7.8	2.13	182.97	163.17	131.90	148.41	142.98	191.51	176.40	176.88
North America (738)	297.50	21.5	264.64	214.70	240.33	296.74	21.5	1.97	296.32	264.25	213.61	240.34	295.57	301.15	237.55	240.82
Europe Ex. UK (507)	207.11	14.8	184.23	149.46	167.31	176.35	23.7	2.27	204.44	182.31	147.37	165.82	174.79	209.70	175.78	175.78
Pacific Ex. Japan (393)	309.17	16.9	275.02	223.13	249.77	268.75	14.4	2.80	305.03	272.02	219.89	247.41	263.29	317.82	261.87	261.87
World Ex. US (1807)	186.74	3.2	166.11	134.76	150.85	149.40	8.8	2.12	185.11	165.08	133.44	150.14	148.29	193.47	177.71	177.88
World Ex. UK (2217)	219.29	9.9	195.02	158.22	177.11	188.02	14.4	1.84	217.86	194.28	157.05	176.70	187.94	224.89	196.49	196.49
World Ex. Japan (1950)	272.00	18.7	241.96	196.30	219.73	256.84	19.9	2.33	270.04	240.82	194.65	219.02	255.29	274.86	224.66	224.66
The World Index (2430)	223.83	10.7	199.11	161.53	180.82	193.95	14.0	2.05	222.36	198.29	160.29	180.35	192.81	228.97	198.91	198.81

Constituent changes during the week ending 20/12/96: Deletions: TNT (Aust), Vidéon (Can) & Wilson & Horton (NZ). Share weighting change: Telekomunikasi Indonesia (20% to 23.15% weighting) (Indonesia); Name change: Credit Local de France to CLF-Dexia France (France). Constituent changes with effect 23/12/96: Deletion: Lloyds Abbey Life (UK); Ciba-Geigy (Switz); FECSA (Spain); Sevillana (Spain); Name change: Sandoz to Novartis (Switz).

THE
DAVID THOMAS
PRIZE

David Thomas was a Financial Times journalist killed on assignment in Kuwait in April 1991. Before joining the FT he had worked for, among others, the Trades Union Congress.

His life was characterised by original and radical thinking coupled with a search for new subjects and orthodoxies to challenge, particularly in the fields of industrial policy, third world development and the environment.

In his memory a prize has been established to provide an annual study/travel grant to enable the recipient to take a career break.

In this, the sixth year of the prize, the theme is:
"Home Truths from Abroad": A policy idea from outside the UK for the next British Prime Minister.
The 1997 prize will be worth not less than £3,000.

Applicants, aged over 21, of any nationality, should submit a typed entry of up to 800 words in English, together with a brief c.v. and a proposal outlining how the award would be used to explore the theme further. Please keep David Thomas's interests in mind when writing both the entry and the proposal.

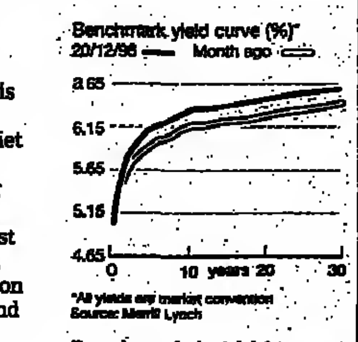
The award winner will be required to write a 1500 to 2000 word essay at the end of the study period. The essay will be considered for publication in the FT.

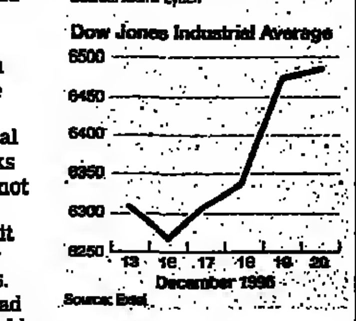
CLOSING DATE JANUARY 5 1997

APPLICATIONS TO:
ROBIN PAULEY, MANAGING EDITOR
THE FINANCIAL TIMES (DEPT DTP)
NUMBER ONE SOUTHWARK BRIDGE
LONDON SE1 9HL

MARKETS: This Week

NEW YORK By John Authers





The US stock and bond markets are overdne for some Yuletide calm, and they are likely to get it this week. The week of Christmas is usually a quiet one, and there is little reason to expect anything differeot this year.

It follows one of the most volatile weeks of the year, which saw stocks wobble on a strong housing report and fears that the Federal Reserve would tighten monetary policy, and then record a sharp rally at the end of the week.

The Dow Jones Industrial Average of blue chip stocks closed on Friday at 6,484, not far from its record set in November. On Thursday, it registered its highest ever daily gain, in points terms.

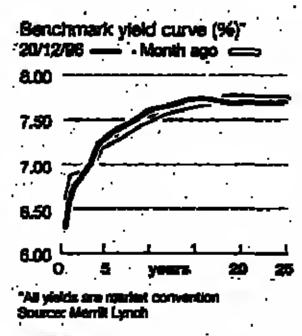
The bond market also had a hectic week, with the yield on the benchmark 30-year Treasury bond hitting 6.70 per cent on Wednesday, up from 6.57 per cent at the beginning of the week.

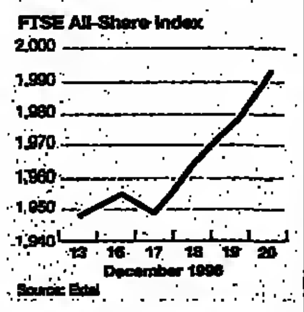
Stronger than expected trade deficit figures, and a weaker than expected weekly unemployment report helped pull yields back below 6.6 per cent. At the close of trading on Friday, the long bond was yielding 6.598 per cent.

Attention today may focus on the minutes of the meeting held by the Federal Reserve's Open Markets Committee in November, released late on Friday. These showed thet board members were still worried hy inflation, but were unanimous in their decision not to raise interest rates. They also noted that economic activity had slowed substantially in the third quarter.

There is little economic data to excite the market this week, with statistical agencies slowing down for the holiday period.

LONDON By Philip Coggan





After wobbling a little in early December, the London stock market will start Christmas week in buoyant mood, after the FTSE 100 index chalked up all-time intra-day and closing highs on Friday.

Few dealers will be at their desks, however, for what will be a highly truncated week with only 2½ days of official trading.

The main news will be the publication of the minutes of the monthly meeting of Mr Kenneth Clarke, the chancellor of the exchequer and Mr Eddie George, the governor of the Bank of England, on October 30.

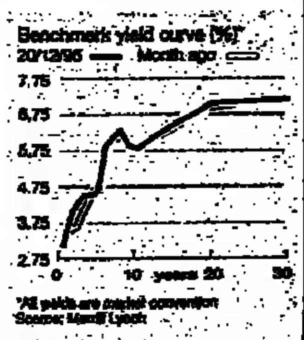
That was the meeting at which Mr Clarke agreed to raise interest rates and economists will pause from unwrapping their Christmas presents to see whether a significant debate *occurred*.

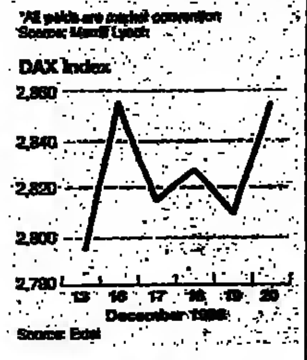
Corporate results will be virtually non-existent and the only economic data due are trade figures, so those folk wbo do slog into the City will probably turn their attention to the prospects for the new year.

The UK economy is expected to grow strongly in 1997, helping corporate earnings. But the threat to the markets could come from a resurgence of inflationary pressures, which would hit gilts and *could prompt an increase in* base rates.

Prospects for the general election will provide another test for the markets. Although investors seem relatively sanguine about the effect of a Labour government on macroeconomic policies, they have some concerns about the damage that other Labour policies, such as adoption of the Social Chapter, might do to corporate profits.

FRANKFURT By Andrew Fisher





There was plenty of festive spirit on the German markets ahead of Christmas week, as shares took heart from a buoyant Wall Street and a firm dollar. As the DAX blne chip index again neared 2,900 points, traders pondered the possibility of the 3,000 mark soon being breached.

With interest rates low, inflation well under control, economic growth expected to pick up more smartly next year, and the softer D-Mark helping exporters, some analysts reckon the DAX could easily push past 3,000 next year.

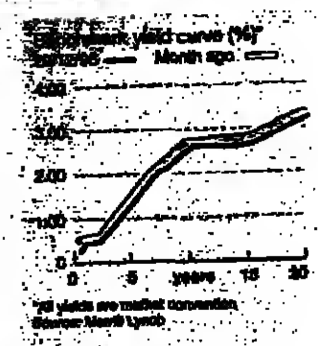
However, they do not expect the overall gain for 1997 to be anything like as steep as this year's 25 per cent; the boldest are going for a DAX of around 3,200. The more cautious incline towards a consolidation, *with the DAX hovering* around its present level.

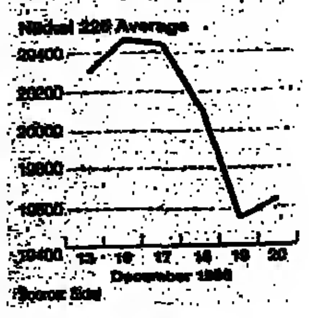
Next in line for an upturn, however, could be the MDAX stocks in the mid-cap category. These have generally not participated in the market's unexpectedly sharp rise this year, but could now benefit from economic revival and the adoption of the corporate restructuring measures that have put many of the blue chips at the centre of investors' attention.

Bonds also ended pre-Christmas week on a positive note, taking their cue from the rise in US Treasury bonds. The average bund yield eased to 5.18 per cent from 5.25 per cent.

The Bundesbank confirmed that it had no plans to change interest rates "in the foreseeable future", and acted to try to keep the markets calm in the two years to European monetary union by setting money supply goals for both 1997 and 1998.

TOKYO





Tokyo markets will continue trading through a short week after today's national holiday, but the absence of foreign investors over Christmas is likely to damp activity. In the stock market, foreigners account for some 10 per cent of market capitalisation of listed equities and around 20 per cent of daily turnover.

The stock market faces additional selling pressure this week from individual investors, who will move to cut their losses ahead of the expiry of six-month margin transactions logged in June.

Fresh funds may flow into equities from several investment trust funds to be established in the coming week. But with a long string of national bolidays approaching, it will take some time for the market to recover from last week'e plunge, which brought the Nikkei 225 average to 19,690.46 at last Friday'e close, down 3.3 per cent from a week earlier, after hitting a closing low for the year of 19,570.67 on December 19.

In spite of the poor performance of shares last week, analysts expect the traditional first-quarter rally early in the new year.

Bonds, like equities, start from more favourable yield levels than at the beginning of 1996, but the consensus is that shares now stand at their most attractive relative levels since the early 1980s.

"All the key variables in the JGB risk equation – that is, prospective real yield valuations; the change in nominal long bond yields; the slope of the yield curve; and implied expections of a tightening of monetary policy relative to economic fundamentals – suggest the bond market is set for an imminent correction," said Mr Cameron Umetsu, of UBS Securities.

COMMODITIES By Maggie Urry

Turbulence hits 'green' rates

Turbulence in the foreign exchange markets has thrown European "green" currency rates into turmoil. Dealers may take a breather this week, but a number of currencies are in confirmation periods which are likely to lead to changes early in the new year.

The Belgian, German, Dutch and Austrian currencies were devalued on December 11 and further small reductions are probable. More problematic though are the deviations from the set rates seen in sterling and the Irish punt.

Both were revalued in November and are likely to rise again in January – the punt on January 11 and sterling on January 21, according to analysts at the Home Grown Cereals Authority.

Both currencies are now in confirmation periods, but at last week'e exchange rates both are more than 5 per cent above the green rate.

Revaluations of green currencies have the effect of reducing the value of EU benefits to farmers, since these are translated from Ecu into the local currency at a less advantageous rate.

However, when a currency revaluation is deemed "appreciable" (as it seems likely to be for both sterling and the punt), direct aid payments are frozen. This would benefit cereal farmers when it comes to next summer's arable aid payments, due on July 1. The 1996 rate would apply again in 1997.

On the other hand, a revaluation would cause intervention prices to fall. The HGCA estimates the sterling intervention price for wbeat could drop by £3 a tonne from the current £99.21.

Intervention stocks are remarkably low throughout the EU, in spite of the record harvest. But while British farmers may soon be rusbing to sell before the sterling intervention price falls, German and other continental European farmers may well be holding back in anticipation of a further devaluation of their green currencies which would give them a higher price for cereals.

OTHER MARKETS Compiled by Jeffrey Brown

After a week of solid gains, European bourses look like heading into the Christmas break in a festive mood.

PARIS

In Paris, the leading CAC 40 index rose more than 4 per cent in a week of often frantic activity as investors scrambled to stay abreast of the latest takeover gossip. The rumour mill showed no signs of slackening oo Friday.

Without doubt, Sanofi, which has a stock market capitalisation of around $9.5bn, was the bottest story in town following the news that Elf Aquitaine had put a for sale sign over its 53 per cent stake in the drugs group.

Potential predators were said to range from Zeneca of the UK to Roche of Switzerland, but most French insiders predict a local solution.

"It is hard to see Sanofi falling into foreign hands. Rhône-Poulenc and the L'Oréal group must be strongest candidates to acquire the Elf shareholding," said one Paris broker.

The bourse shuts at midday on Tuesday and reopens for a full session on Thursday. Monday is the last day of the December trading account.

No corporate news was signalled late last week and economic data was limited to the November consumer spending figures, due on Friday.

Bourse talk suggested that, with the Alps enjoying their heaviest December snowfalls for several years, attendance levels this week were likely to be severely depleted.

ZURICH

Shares in Novartis, the world's number two pharmaceuticals company, formed by the merger of Sandoz and Ciba, make their debut on the Zurich bourse today.

Long-awaited US regulatory clearance for the merger came on Thursday, almost nine months after the deal was announced.

Ciba shares have appreciated by 44 per cent and Sandoz shares by 32 per cent since the plan was made public. However, in recent sessions, profit-taking and switching into Roche certificates have pulled the Novartis shares back from their best levels.

Some funds are also reported to have been selling Sandoz and Ciba because Novartis will have a 26 per cent weighting in the SMI index, and they would otherwise have been invested too heavily in just one stock.

Novartis will have around 4.4 per cent of the world pharmaceutical market, against 4.7 per cent for world leader Glaxo-Welcome.

HONG KONG

Hong Kong is expected to be quiet in the holiday week. However, after having posted the year's highest one-day point gain, on Friday, the mood is likely to stay upbeat, *writes Louise Lucas in Hong Kong*.

Up 285 to 13,131 on Friday, the Hang Seng index advanced 2.7 per cent, although by the closing stages trading levels were showing signs of winding down for the Christmas break.

Brokers expect the upward trend to continue this week, especially if the bond market and Wall Street remain favourable. Domestic features likely to drive the market include sentiment on property and liquidity, which a number of brokers are predicting will remain strong in 1997. However, short-term resistance is expected to kick in at 13,350.

Looking ahead, brokers are concerned about a short-term correction on Wall Street but also see a number of factors running in Hong Kong's favour.

Inflows of money from China are expected to be substantial in the run-up to Beijing's resumption of sovereignty, and the economy is coming out of recession, with corporate earnings expected to expand by up to 18 per cent in 1997.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Western Resources (US)	ADT (Bermuda)	Security	$3.5bn	New, unsolicited bid
Entergy (US)	London Electricity (UK)	Power	$2.17bn	Rec US takeover continues
Gulf Canada Resources (Canada)	Clyde Petroleum (UK)	Oil & gas	$717m	Another hostile bid
Investor consortium (Intl)	CRT (Brazil)	Telecoms	$656m	Telefónica raises LatAm profile
Banco Santander (Spain)	Banco de Venezuela (Venezuela)	Banking	$338m	Spanish banks continue . . .
Banco Bilbao Vizcaya (Spain)	Banco Provincial (Venezuela)	Banking	$300m	. . . LatAm buying
Airtours (UK)	Costa Crociere (Italy)	Travel	$300m	Joint move with Carnival

CURRENCIES By Emiko Terazono

US dollar may test resistance levels by year-end

Although seasonal factors capped a rally in the dollar, some technical analysts are hopeful that the US currency may test its resistance levels ahead of the year-end.

The increasingly gloomy economic outlook for Europe, together with rallies in both US bond and equity markets, has heightened bullishness over the dollar.

Data this week are expected to indicate buoyant economic activity, with the focus on November durable goods orders on Friday.

With expectations of rate cuts mounting in France, Germany and other countries in continental Europe, the dollar and sterling are likely to be the targets of speculative buying.

French bousebold consumption for November released on Friday could further heighten pessimism. The data are expected to show a negative year-on-year rate for the first time in four months, and weakness in consumer spending will have a direct impact on fourth-quarter output and GDP.

The weakening of the Swiss franc, which is widely regarded as overvalued against the dollar and D-Mark, and has suffered recent short selling, is also expected to continue. Goldman Sachs last week said the Swiss franc was "still the most mis-aligned currency".

In spite of low interest rates, the case for selling the yen may not be as strong, since Japanese currency markets are open all week. "There is always a risk of surprises," said Mr Tony Norfield at ABN Amro Bank, adding that comments from Japanese government officials could affect volatility.

Although indicators released this week are unlikely to change the imminent outlook for Japanese interest rates, the data are likely to confirm stagnant economic growth.

November industrial production and housing starts are expected to slow, while retail eales for the same month are likely to show the first year-on-year decline in four months.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, December 20, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7916.83	4750.00	3056.82	4160.46
Albania	(Lek)	170.337	102.200	65.7700	89.5156
Algeria	(Dinar)	93.7934	56.2743	36.2148	49.2889
[illegible]					

		£ STG	US $	D-MARK	YEN (X 100)
Greece	(Drachma)	411.942	247.100	159.019	216.432
Greenland	(Danish Krone)	9.8168	5.8930	3.8291	5.2115
Grenada	(E Carib $)	4.5001	2.7000	1.7376	2.3648
[illegible]					

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)(3)	66.8012	40.0789	25.7931	35.1055
Panama	(Balboa)	1.6667	1	0.6435	0.8758
Papua New Guinea	(Kina)	2.2417	1.3450	0.8656	1.1781
[illegible]					

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MARKETS: This Week

SYNDICATED LOANS By Conner Middelmann

Another strong year despite tight pricing

Interest margins on syndicated loans took another tumble in 1995, defying predictions a year ago that rates had bottomed.

In spite of shrinking returns, however, the market has had another strong year, fuelled by high bank liquidity and borrowers' continuing demand for funds.

The volume of euromarket loans in the year to December 17 totalled $332.7bn, down from last year's record $396.6bn but significantly above the $222bn worth arranged in 1994.

Non-OECD and emerging-market borrowers – especially in central and eastern Europe – accounted for a hefty portion of the growth: according to Euromoney, some $11.1bn in bank loans went to central and eastern Europe, up from $8.8bn in 1995 and $7.5bn in 1994.

Among western European borrowers, there was a slight decline in activity, with facilities totalling $244bn, down from $274bn last year.

The drop in volume was partly because of lower sovereign borrowing, as European governments scrambled to reduce their budget deficits to help them qualify for European monetary union. Also, many sovereigns have established finely-priced facilities in the last two years and had no need for new money. Sovereign activity totalled a mere $3.3bn, down from $35.1bn in 1995 and $15.5bn in 1994, according to Capital Data.

In the corporate sector, loan refinancings, which boosted lending in 1995 and 1994, also slowed since most borrowers now have finely priced facilities in place for several years.

Nevertheless, the UK market has been very active, buoyed by large mergers and acquisitions – such as Granada's hostile takeover of the Forte hotel group and a round of acquisitions in the UK energy sector, privatisations, including Railtrack and British Energy; and corporate restructuring, such as the decision by Hanson to spin off several businesses.

This has helped some of the large UK banks to vault to the top of the underwriting league table this year.

BZW leads the pack, having underwritten $31.6bn in loans by mid-December and holding a 6 per cent market share, according to Capital Data; it was in sixth place in 1995. Chase Manhattan Bank stands in second place with $23.2bn, or 7 per cent of the market, followed by Deutsche Morgan Grenfell with $23bn and NatWest Markets with $21.1bn.

In spite of strong demand for funds, and contrary to many bankers' expectations, interest margins in the UK continued to contract during 1996, especially for slightly weaker credits.

"The pricing curve has flattened markedly along the credit spectrum," says one banker. Another adds: "In their quest for higher returns, banks started to chase lower-rated borrowers and that's eroded margins."

Many bankers now feel this trend is coming to an end. "Recently, some transactions haven't got done, or only with great difficulty – banks will have to be careful in the new year and price their deals appropriately."

That's especially important in view of the avalanche of supply expected to hit the market in January. Bankers estimate that the UK market alone could see up to £5bn of new deals, partly spurred on by the possibility of an early general election.

Likely UK corporate deals include a £1bn facility for British Gas Energy and a £1.2bn transaction for Gallaher, the tobacco company. Ongoing UK jumbo deals include a $2.1bn facility for Imperial Chemical Industries and a £1.25bn credit facility for Entergy Power, the US utility whose £1.3bn takeover offer for London Electricity was agreed last week.

Still, some say banks may become more selective in the new year. As banks' credit committees realise that they are taking on tightly priced loans without getting anything in return – such as a borrower's foreign exchange or derivatives business, or opportunities for underwriting or advisory work – they will become increasingly reluctant to authorise the loans, bankers warn.

"There is a shift going on among a number of the larger European commercial banks as to the price at which they'll put out their balance sheet, even for relationships," says one syndicate official.

Most market participants say western European loan margins are unlikely to rise in any significant way next year, barring unforeseen problems, and most expect margins to remain tight.

"Bank competition will keep downward pressure on margins intact, even though this type of business is hurting lenders," says one banker. "It would take major economic or credit events, such as a recession or a large loan rescheduling, to push prices higher."

The only exception to this may be eastern Europe, where the dramatic decline of margins over the last 12 months recently provoked howls of protest from the lending community.

"Until credit fundamentals in this region show further improvement, I see no justification for these margins, let alone for even lower ones," says one syndicate official.

Hungary is one of the best examples of this trend. The race for tighter Hungarian price terms began last month when Matav, the telecommunications operator, secured a $250m five-year loan at a margin of 30 basis points over Libor.

This undercut the 50 basis point margin the Hungarian government was paying on a $350m five-year facility set up in August, prompting the National Bank of Hungary to reprice that facility with a margin of 20 basis points. The renegotiation has not been an unqualified success – indeed, several banks dropped out of the syndicate and the size of the facility has been scaled back to around $300m.

Controversy has also surrounded a $500m seven-year facility for Mol, the Hungarian oil and gas company, which was to be priced at an interest margin of 25 basis points, rising to 30 after five years. Strong opposition from the syndications community to the pricing has led to talk that the terms of the deal will be modified to accommodate lenders.

Ironically, many bankers have welcomed the recent turmoil. "Recent developments will bring some sanity back into the market," said one. "These deals will put a bottom in the market."

More transactions are expected to emerge in eastern Europe next year to finance the region's substantial infrastructure needs. Russian borrowers, especially, are likely to raise their profile, and they, too, are set to benefit from declining margins – a trend which has begun to creep in.

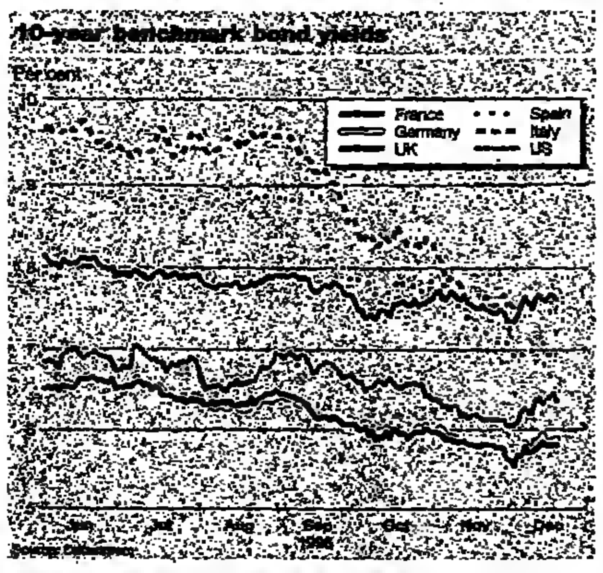
Until recently, Russian borrowers – mostly banks – have been paying 400 to 800 basis points over Libor, but Bank Imperial is currently in the market with a $25m one-year loan paying a margin of 387.5 basis points, the first sub-4 per cent transaction from Russia.

Meanwhile, observers are watching with interest an initiative launched by leading commercial banks to establish a secondary market in the debt of large European companies.

The move would bring the London market into line with the US, where bank loans are commonly traded among financial firms as a means of distributing risk and enabling investors to place money into a range of financial assets.

The banks involved are Barclays, Credit Suisse, Fuji Bank, HSBC Holdings, J. P. Morgan, NatWest, and SBC Warburg.

10-year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	3.20(1)	7.50	5.90(2)
Overnight	5.13	0.44	2.94	3.25	7.50	5.88
Three month	5.01	0.18	3.16	3.28	7.02	6.31
One year	5.43	0.38	3.18	3.29	6.40	6.81
Five year	6.15	1.38	4.56	4.76	6.72	7.32
Ten year	6.34	2.45	5.82	5.80	7.54	7.61

(1) France-intervention rate. (2) UK-Base rate. Source: Reuters.

EMERGING MARKETS By Judy Dempsey

Budget cut hopes lift Tel Aviv

The Tel Aviv stock exchange, so long in the doldrums, has managed a small recovery in the past few weeks, helped by the prospect that Mr Benjamin Netanyahu, the Israeli prime minister, might at last be serious about pushing through Shk6.1bn ($1.9bn) of cuts in next year's budget and pressing ahead with his privatisation programme.

The Mishtanim index of the top 100 shares rose to 206.63 last Thursday, up sharply from its low this year of 167.07 on July 22.

Recent turnover on the market, which trades on an price/earnings multiple of 11, has also picked up, rising to a daily Shk88m compared with a miserable Shk40m in the autumn. Among the best performing sectors have been retailing, especially in the food sector, which includes Supersol and Blue Circle; some blue chips, particularly Tadiran, the telecommunications company; and the banks.

Even if consumer spending declines next year as the economy slows, the food sector is expected to maintain its strong attraction for investors. Supermarkets look set to capture 56 per cent of the food retailing market, compared with 37 per cent two years ago, as they expand into shopping malls, and as European and US retailing chains start investing in Israeli food retailing outlets.

More good news for the exchange is that redemptions from provident funds and long-term savings has at last slowed, falling to Shk380m in November from Shk1.06bn in October and Shk3.5bn in September. Since the beginning of the year, net redemptions have amounted to Shk12.3bn, equivalent to about 13 per cent of total fund assets.

Savers have tended to shift 50 per cent of their redeemed funds to short-term deposits and inflation-linked bonds, whose returns were higher. The redemptions, however, robbed the exchange of much-needed activity at a time when foreign investors, who usually make up 10 per cent of average daily trading, remained on the sidelines because of political uncertainty.

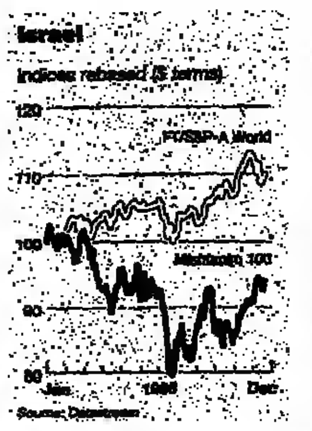
The remaining 50 per cent of the redeemed funds was channeled into consumer goods. This helps explain the widening current account deficit, which is forecast to rise from 4.7 per cent to 5.4 per cent of gross domestic product next year.

However, if the exchange's fillip is to be transformed into a sustained recovery, analysts believe that much depends on macroeconomic policy and the future of the peace process, which came to a virtual standstill after the election of Mr Netanyahu as prime minister of the conservative-led Likud coalition in May.

On the macroeconomic front, if agreement is reached on budget cuts – aimed at bringing the deficit down from the current 4–4.5 per cent of GDP to 2.8 per cent next year – it could push down inflation, which is running at 11 per cent, to between 7 and 10 per cent, according to the latest forecasts by the Bank of Israel, the central bank.

More encouraging for the business community, which has been strangled by the shekel's appreciation against the dollar, is that prime interest rates, currently at 16.7 per cent, could go down as well. In short, 1997 could start on a more optimistic note.

Israel



Source: Datastream

"So much depends on Mr Netanyahu's ability to push through the budget cuts, push ahead with privatisation and put the peace process back on track," said Ms Elise Horowitz, analyst at Lehman Brothers.

Mr Netanyahu's mettle will be tested in the coming days when the budget is presented to the Knesset for a second reading. If it is not agreed by December 31, the 1996 budget will remain in effect for a further three months, leaving investors with an unwelcome bout of fresh uncertainty.

Analysts remain sceptical about Mr Netanyahu's ability to get the budget cuts accepted this time around. He heads a fractious coalition and has been pressed by the ultra-Orthodox, and sections of his own Likud party, to spend more on expanding the Jewish West Bank settlements in spite of his commitment to cut the budget deficit. Indeed, it is still unclear how he will make up the shortfall of $500m in lost tax revenue caused by his plan to offer financial incentives to Jewish settlers.

Even his own party is divided over the pace of privatisation. It cannot agree, for example, whether to allow Cable and Wireless, the UK telecoms group, to raise its stake to 20 per cent in Bezeq, the state-owned telecoms network.

There is also the peace process. "We had a series of crises in 1996, ranging from car bombs earlier in the year to the violence last September," said Mr Gad Haker, head of the international department at Batucha Securities.

"And if you also take into account the crisis in the provident funds and an unclear macroeconomic policy, it was a very turbulent year. All I can asy about next year is that the political situation will be of critical importance for the economy and for the markets."

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	20/12/96	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (448)	158.15	+2.28	+1.46	-1.39	-0.87	+10.59	+7.16
Latin America							
Argentina (22)	103.39	+5.16	+5.25	+1.13	+1.11	+10.61	+11.44
Brazil (24)	255.49	+8.42	+3.41	+9.51	+3.87	+69.40	+37.29
Chile (16)	162.68	-3.12	-1.86	-12.10	-6.92	-32.98	-16.66
Colombia (13)	172.93	+0.97	+0.56	-0.80	-0.46	+6.68	+5.29
Mexico (27)	81.55	+2.74	+3.47	+0.19	+0.24	+7.96	+10.81
Peru (12)	971.53	-36.94	-3.66	-93.77	-8.80	-97.42	-9.11
Venezuela (6)	59.29	+1.83	+3.16	-1.80	-2.95	+31.78	+115.55
Latin America (119)	141.11	+3.53	+2.57	+0.47	+0.33	+17.87	+14.59
Europe							
Czech Rep.(14)	101.30	+3.35	+3.43	+2.45	+2.47	+25.00	+32.76
Greece (20)	113.61	+4.13	+3.77	+0.08	+0.07	+15.64	+15.96
Poland (25)	339.71	+3.89	+1.16	+4.68	+1.40	+136.55	+66.88
Portugal (17)	144.24	+1.87	+1.31	-0.11	-0.07	+27.79	+23.86
South Africa (30)	127.66	+2.49	+1.99	-7.15	-5.30	-25.71	-16.77
Turkey (27)	124.99	+5.25	+4.38	+8.79	+7.56	+42.19	+50.95
Europe (133)	116.73	+2.61	+2.29	-2.84	-2.37	-4.80	-3.95
Asia							
China (27)	51.14	-2.01	-3.79	+6.32	+14.11	+10.81	+26.82
Indonesia (30)	155.60	+1.51	+0.98	+3.59	+2.36	+16.96	+12.23
Korea (23)	86.15	+3.40	+4.11	-9.14	-9.59	-50.75	-37.07
Malaysia (24)	272.01	+3.36	+1.25	+1.29	+0.48	+44.64	+19.84
Pakistan (13)	61.13	-1.93	-3.07	-6.72	-9.90	-12.46	-16.93
Philippines (18)	313.32	+3.89	+1.26	+6.75	+2.20	+54.15	+20.90
Taiwan (31)	185.97	+1.08	+0.58	+4.80	+2.65	+55.15	+42.15
Thailand (29)	155.10	-11.39	-6.84	-32.09	-17.14	-96.79	-38.42
Asia (193)	215.64	+0.44	+0.20	-2.63	-1.20	+12.80	+6.30

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
[illegible]	100	Dec 2000	5.875	100.08	-	-	Nomura International
Slovenska Sporitelna	80	Dec 2005	(fr)	100.00	-	-	Merrill Lynch Intl
GTFC 96-D, Class A1	280.8	Dec 2022	(fr)	100.00R	-	-	Merrill Lynch
BTC Capital Trust 1	250	Dec 2026	(fl)	99.0221R	-	-	Bear Stearns Intl
[illegible]	50	Jan 2000	5.325	100.00	5.320	-	IBJ Intl Japan
Rabobank [illegible]	50	Dec 2001	(fl)	100.25	-	-	DKB International
YEN							
[illegible]	[illegible]	Mar 2004	0.125	100.00	-	-	[illegible]
[illegible]	[illegible]	Dec 2006	(a)	99.85	-	-	[illegible]
SWISS FRANCS							
[illegible]	100	Nov 2001	3.25	102.20	2.762	-	SBC Warburg
STERLING							
Swedish Export Credit	110	Jul 1998	6.69	100.00	[illegible]	-	IBJ International
GUILDERS							
[illegible]	700	Dec 2006	6.125	100.00	6.124	[illegible]	Morgan Stanley Intl
FRENCH FRANCS							
[illegible]	500	Nov 2009	6.25	101.25	6.094	[illegible]	BNP
ECU							
Credit Local de France	100	Dec 2003	5.75	101.55	5.48	-	BIL
NEW ZEALAND DOLLARS							
Nordic Investment Bank	70	Sep 1998	6.75	100.80	-	-	Tokyo-Mitsubishi Intl
World Bank	200	Jan 2002	7.25	101.505	6.884	-	Toronto Dominion Bank
GREEK DRACHMAS							
EIB	40bn	Dec 2001	(fl)	100.10R	-	-	Citibank Int of Greece
AUSTRIAN SCHILLINGS							
Petrobras	1.25bn	Dec 2004	9.50	99.575R	[illegible]	[illegible]	[illegible]

[illegible]

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

Sweden	(SKr)	46.86	8.714	7.685	2.276	0.884	2238	2.554	9.473
Switzerland	(SFr)	23.98	4.455	3.929	1.164	0.452	1144	1.305	4.843
UK	(£)	53.33	9.917	8.745	2.590	1.006	2547	2.906	10.78
Canada	(C$)	23.40	4.351	3.837	1.136	0.441	1116	1.275	4.730
US	($)	31.99	5.949	5.246	1.554	0.603	1528	1.743	6.467
Japan	(Y)	28.02	5.211	4.595	1.361	0.529	1338	1.527	5.665
Ecu		39.68	7.379	6.507	1.927	0.749	1895	2.162	8.021

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kroner per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	0.6459	0.6474	+0.0015	0.6488	0.6448	18,918	47,524
Jun	0.6498	0.6513	+0.0014	0.6515	0.6498	60	4,362
Sep	-	0.6552	+0.0018	-	-	50	1,693

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	0.7532	0.7551	+0.0013	0.7574	0.7520	16,482	44,644
Jun	0.7614	0.7618	+0.0013	0.7635	0.7603	14	1,389
Sep	-	0.7686	+0.0013	0.7695	-	21	1,800

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	0.8878	0.8854	-0.0025	0.8878	0.8848	11,475	53,469
Jun	0.8968	0.8968	-0.0025	0.8980	0.8968	282	1,399
Sep	-	0.9083	-0.0025	-	-	50	85

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	1.6614	1.6664	+0.0048	1.6668	1.6598	10,620	25,302
Jun	1.6578	1.6626	+0.0048	1.6614	1.6550	6	2,152
Sep	-	1.6582	+0.0046	1.6560	-	15	1,027

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jan	Feb	Mar	PUTS Jan	Feb	Mar
1.660	1.72	2.51	2.91	1.02	1.94	2.48
1.670	1.20	2.03	2.47	1.50	2.45	2.98
1.680	0.81	1.61	2.05	2.11	3.03	3.55

Previous day's vol., Calls 201 Puts 291. Prev. day's open int., Calls 28,982 Puts 54,858

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jan	Feb	Mar	PUTS Jan	Feb	Mar
0.635	1.11	-	-	0.24	0.43	0.57
0.640	0.77	1.16	1.40	0.35	0.61	0.78
0.645	0.49	0.88	1.12	0.57	0.84	0.99

Previous day's vol., Calls 35 Puts 1,348. Prev. day's open int., Calls 29,833 Puts 18,759

■ Pound in New York

[illegible]

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on the Markets page in today's edition.

BANK RETURN

BANKING DEPARTMENT	Wednesday December 11	Increase or decrease for week
Liabilities	£	£
Capital	14,533,000	
Public deposits	1,001,454,680	-179,740,803
Bankers deposits	2,020,964,847	+69,843,501
Reserve and other accounts	3,192,568,253	-131,531,613
	6,229,540,780	-241,429,115
Assets		
Government securities	1,232,139	-1,229,971,022
[illegible]		

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

BASE LENDING RATES

[illegible]

FT GOLD MINES INDEX

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1996 High	Low	Stock	Closing price p	+or-
118	Nil	3/1	12½pm	2½pm	Allied Colloids	12pm	+1
5	Nil	3/1	1½pm	1½pm	Aukett Assoc	1½pm	
820	Nil	3/1	½pm	¼pm	Azlan	¼pm	
500	Nil	6/1	254pm	167½pm	Biocompatibles	251½pm	+11½

pm premium.

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

STOCK INDICES

[illegible]

NOTICE PUBLISHED BY THE SECRETARY OF STATE FOR TRADE AND INDUSTRY UNDER SUBSECTIONS 8(5) AND 10(6) OF THE TELECOMMUNICATIONS ACT 1984

The Secretary of State hereby gives notice as follows.

1. He proposes to grant licences under the Telecommunications Act 1984 ("the Act") to Esat Telecommunications (UK) Ltd and Telstra (UK) Ltd ("the Licensees") to run international telecommunication systems in the United Kingdom. Each licence will be identical, except that the Secretary of State proposes to apply to Telstra (UK) Ltd the telecommunications code ("the Code") subject to certain exceptions and conditions, whereas he does not propose to apply the Code to Esat Telecommunications (UK) Ltd.
2. The principal effect of the licences will be to enable each Licensee to install and run telecommunication systems in the United Kingdom which may be connected to telecommunication systems outside the United Kingdom, and to provide a wide range of international services but not any domestic services (i.e. services involving the conveyance of messages which originate and are subsequently to terminate in the United Kingdom) or mobile radio services. Each licence authorises the connection to a wide range of other systems, including domestic systems and earth orbiting apparatus.
3. Each licence will be subject to conditions such that section 8 of the Act will apply to it, thereby making each of the systems run under the licences eligible for designation as a public telecommunication system under section 9 of the Act. It is the intention of the Secretary of State to designate each of the Licensees' systems as a public telecommunication system.
4. The Secretary of State proposes to grant the licences in response to an application from each licensee for such a licence because he considers that it will help to satisfy demands in the United Kingdom for the provision of services of the type authorised, will promote the interests of consumers in respect of the quality and variety of such services, and will maintain and promote effective competition between those engaged in the provision of telecommunication services.
5. He proposes to apply the Code to Telstra (UK) Ltd subject to certain exceptions and conditions throughout the United Kingdom. The effect of the exceptions and conditions to the application of the Code is that Telstra (UK) Ltd will have duties:
   (a) to comply with various safety and environmental conditions, in particular (with certain exceptions) to install lines underground or only on such above-ground apparatus as is already installed for any purpose;
   (b) to comply with conditions designed to ensure efficiency and economy on the part of the Licensee, in connection with the execution of works on land concerning the installation, maintenance, repair or alteration of its apparatus;
   (c) to consult certain public bodies before exercising particular powers under the Code, including the local planning and highway authorities and English Nature, Scottish Natural Heritage, the Countryside Council for Wales, the National Trust and the National Trust for Scotland, as well as relevant electricity suppliers;
   (d) to keep and make available records of the location of underground apparatus and copies of the exceptions and conditions in the licence to its powers under the Code; and
   (e) to ensure that sufficient funds are available to meet certain liabilities arising from the execution of street works.
6. The reason why the Secretary of State proposes to apply the Code to Telstra (UK) Ltd is that it will need the statutory powers in the Code to install and maintain the telecommunication systems which are to be installed and run under the proposed licence.
7. The reasons why it is proposed that the Code as applied should have effect subject to the exceptions and conditions referred to above are that they are considered requisite or expedient for the purpose of securing that the physical environment is protected, that there is no greater damage to land than necessary, that the systems are installed as safely and economically as possible, and that Telstra (UK) Ltd can meet (and relevant persons can enforce) liabilities arising from the execution of works.
8. Representations or objections may be made in respect of the proposed licences, the application of the Code to Telstra (UK) Ltd and the proposed exceptions and conditions referred to above. They should be made in writing by 20th January 1997 and addressed to the undersigned at the Department of Trade and Industry, Communications and Information Industries Directorate, 2.03 Red, 151 Buckingham Palace Road, London SW1W 9SS. Copies of the proposed licence can be obtained free of charge by writing to the Department (fax: 0171 215 1721) or by calling 0171-215 1746.

Michael Crosse
Department of Trade and Industry
23 December 1996

Madhya Pradesh

The poor infrastructure is just one of several factors blamed for a low level of foreign investment. But energetic officials are tackling the problems and pinning great faith on good governance, writes **Mark Nicholson**

Unexplored avenues for foreign investors

The size of Germany and Austria combined, with more people than the UK, India's biggest state would make rather a big country.

But Madhya Pradesh lies landlocked in the heart of India, where it is easy to go unnoticed. Many foreigners might be aware of Madhya Pradesh only through the horrible industrial accident in Bhopal, state capital, when 4,000-5,000 people were killed and tens of thousands more harmed by a lethal gas leak from a Union Carbide pesticides plant 12 years ago.

Or perhaps tourists might cherish more cheerful thoughts, of the extraordinary erotic carvings adorning the Hindu temple at Khajuraho, or the rare glimpse of a tiger at Kanha national park.

For foreign investors, though, Madhya Pradesh remains sketchily charted territory. Its bounty of natural resources – under its 445,000 sq km of soil lie 27 per cent of all India's known mineral riches, including iron ore, bauxite, tin, limestone and phosphates – have drawn domestic investment into resource-based industries, notably steel and cement. But Madhya Pradesh, 80 per cent of whose 66m people live in rural areas, is firmly in the second rank of states to have attracted foreign investors since India's trade and industrial liberalisation began five years ago.

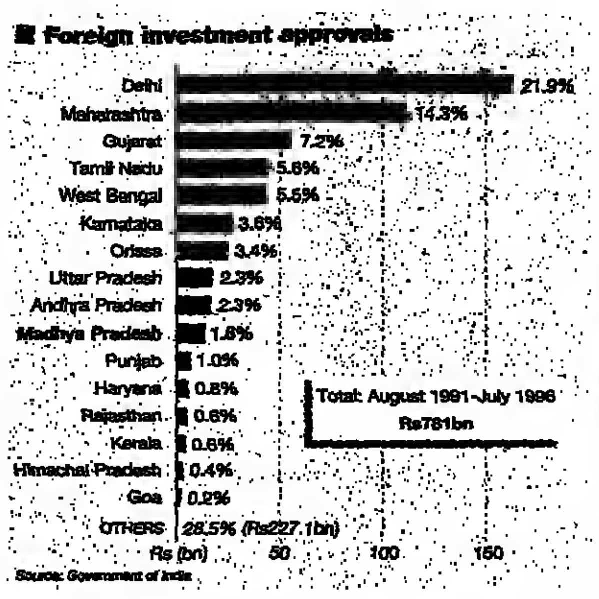
So while it has drawn a respectable Rs445bn ($12.5bn) of domestic investment approvals between 1991 and 1996, topped only by the more populous Uttar Pradesh and the more industrially diversified Gujarat and Maharashtra, the central Indian state has reaped just Rs14bn in foreign direct investment approvals since 1991, a mere 1.8 per cent of the Indian total.

Among the new investors, LG Group, the Korean electronics company, is establishing a $285m colour television tube factory near Gwalior in the north with Hotline, an Indian TV manufacturer. Bridgestone, the Japanese tyre group, is investing $100m with ACC, an arm of the Tata group, in a new plant at Indore, already a motor ancillaries hub. And Fujitsu, the Japanese electronics group, last year formed a $22m joint venture with Optel, the state's optical fibre and cable company, to manufacture microwave communications technology.

Nevertheless, some of even its most optimistic officials believe that the state, at least for now, has been more hurt than helped by India's liberalisation, which abolished the centralised licensing of industry which gave Delhi powers to direct investment to poorer states such as Madhya Pradesh. And the state is among India's least advantaged. Almost a quarter of its population are "tribals", largely poor, subsistence farmers who still practise slash-and-burn cultivation or hunt with bows and arrows. A further fifth belong to India's lowest castes.

"We are losers from liberalisation," says one senior state official. "Before, we were getting a good amount of projects; a good number of licences. But after this liberalisation, people are free to start up anywhere. It is not beneficial for us."

What perhaps distinguishes Madhya Pradesh from other poor states – it is 14th of the 20 main states by per capita state domestic product – is both the degree of awareness of this fact among its most senior officials, and the level of determination to compete in the newly-emerged intra-state competition for investment.



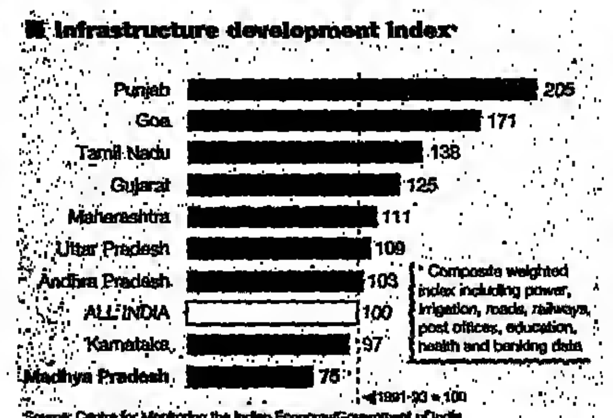
Around Mr Digvijay Singh, the technocratic, 50-year-old Congress party chief minister, is a small clutch of energetic senior state officials with few illusions about what needs to be done.

Mr Singh characterises the task most broadly as creating an environment of speed, transparency and honesty to greet investors – notions not universally associated with Indian state governments. "Whoever clears projects fastest and who is least corrupt will stand first," he says.

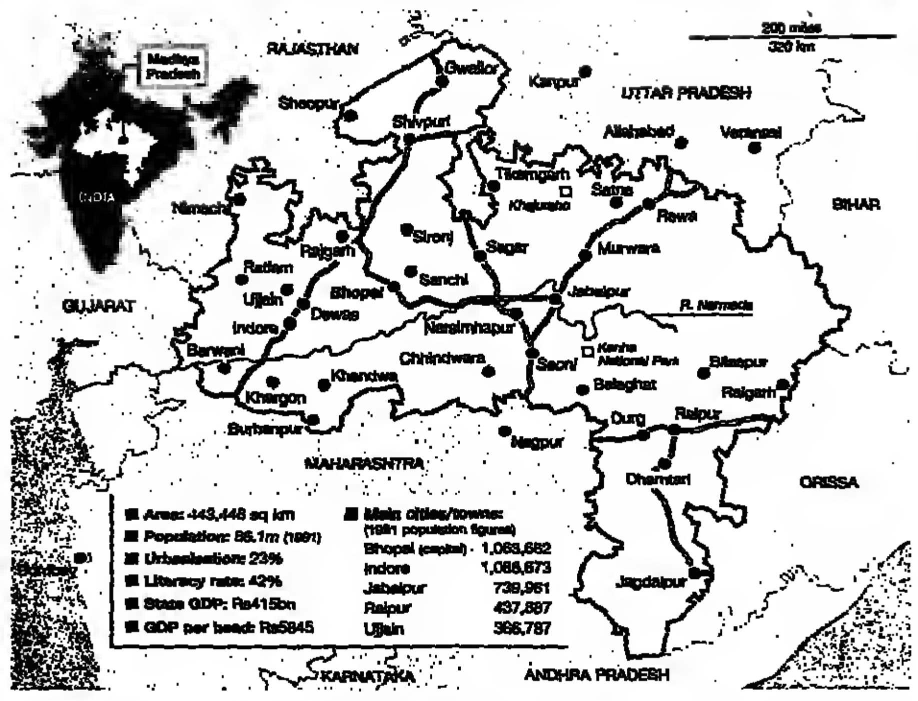
More specifically, he says the state also needs to address with urgency its severe infrastructural disadvantages. Madhya Pradesh has no port, no international airport and is served by only one of India's new private airlines.

Indian Airlines offers only one flight a day each to Bombay and Delhi from Bhopal and Indore, the commercial centre, and these flights are often delayed. Road links are poor: it takes 18 hours to drive the 800km from Bhopal to Raipur in the south. And the state is suffering a grave and increasing power deficit.

"We have tried to offset these disadvantages by offering more attractive packages of incentives," says Mr Singh. "We've also tried to create an atmosphere of industrial peace and we've really tried to ensure things are done faster."



Madhya Pradesh accordingly offers some of the biggest sales tax exemptions for incoming investors of any state. Mr Singh has empowered the state's Industrial Development Corporation to hunt for private partners in developing power, roads and other infrastructural amenities. He says he has also tried to replace obstructive bureaucrats since taking power in 1993, while seeking also to remove opportunities for corruption.



But to compete for incoming investment at the levels of states such as Maharashtra (Rs111bn worth of FDI approvals since 1991) or Gujarat (Rs56bn worth), Madhya Pradesh officials realise they must, critically, solve its infrastructural problems.

The state government has long been lobbying Delhi to approve international access to Bhopal or Indore airport, although there remains little progress. In lieu of such, the state has established a customs clearance centre at Indore to enable local exporters to clear goods in-state, rather than be forced to do so at ports in Gujarat or Maharashtra where the state's export officials say Madhya Pradesh industrialists are often made to wait days while local exporters load their cargoes.

A second clearance centre is planned for Raipur in the south within 18 months. Meanwhile, an air cargo centre for export is also planned at Indore in a joint venture between Tata Exports and the state's Industrial Development Corporation.

The state is also backing plans to create a privately-financed and dedicated minor port in Gujarat. Alpine Industries, one of Madhya Pradesh's biggest exporters of soya beans – of which the state produces 80 per cent of India's crop – has been granted 40 sq km of land at Okha on the Gujarat coast to establish a bulk export jetty to handle 3,000 tonnes of beans a day. State officials hope the port could eventually expand to handle other goods and manufactured exports.

Tenders have also been issued to build a private toll road for the 155km from Bhopal to Indore.

Both Ferrovial of Spain and Bonygues of France have submitted bids, tempted by the promise of state land to develop business and industrial parks along the route.

Most vital, however, are moves to address an electricity shortfall which currently amounts to a peak power gap of 1500 megawatts – a 30 per cent shortage – which is rising at 10 per cent annually and which, concedes Mr M. P. Rajan, managing director of the state's Industrial Development Corporation, "will hamper industrial development".

While 19 memorandums of understanding (MOUs) have been signed with foreign and Indian private power contractors to build new plants, few appear close to finalising financial packages and there is little hope of any coming on stream within the next three to four years.

As a matter of some urgency, therefore, the state has offered incentives for industrialists to establish captive power plants, hoping to cream off surplus generation into the state grid.

Daunting as Madhya Pradesh's agenda appears, its top officials remain sanguine. They point to still untapped mineral resources, including diamonds, for which three large concessions may soon be awarded to Indian joint ventures with Australian and South African mining groups.

The state also offers some of India's best but least frequented historical sites and game parks and is arousing interest in tourism investments from Indian and US groups.

Land is cheap, with state industrial parkland available at Rs60 a square metre against rates of Rs450-Rs2,000 for similar land near Delhi. The average wage for semi-skilled workers in the state is also just Rs40 an hour against Rs100 in Delhi.

But above all, officials are pinning great faith on attracting industry through good governance. "There's a growing number of people who have had experience of the state, who know it's easier to get along here – there's less highway robbery; fewer people asking for money all the time," says Mr Rajan.

Additional reporting by Peter Montagnon

The erotic temples of Khajuraho in the north of the state feature explicit carvings of acrobatic sexual activity Picture: Hutchison Library

■ **Tourism:** by Tony Tassell

Plenty of attractions

Improvements to the infrastructure may boost the number of tourist visitors

The majority of the more than 2m tourists who visit India each year tread a well-worn path around a few cities. Most tourists rarely stray out of a triangle in the north of the country formed between New Delhi, the Taj Mahal at Agra and the pink city of Jaipur in the state of Rajasthan.

However, other states are now making a pitch for a greater share of the tourist dollar, notably the beach-lined former Portguese colony of Goa and the southern state of Kerala.

Madhya Pradesh has joined the ranks of those states, slowly stepping up its bid for a greater inflow of tourists. Despite its central location in the heartland of India, it attracts only a paltry fraction of the tourist traffic into the country. The government claims that only about 70,000 foreigners make their way to the state every year.

However, it is not as though the state is lacking in tourist attractions; they are as rich and varied as any in India including grand forts, ancient buddhist temples, wildlife reserves and a myriad palaces.

The chief draw cards are the erotic temples of Khajuraho in the north of the state. Despite relative inaccessibility, they ara described by the Rough Guide to India as one of the most essential stops on any itinerary of the country's historic monuments. These ancient Hindu temples feature explicit carvings of acrobatic sexual activity and contortions.

Madhya Pradesh also has two of the best wildlife reserves in the country, at Kanha and Bandhavgarh in the east of the state. Covering nearly 2,500 sq km between them, they are among the last remaining sanctuaries for the Indian tiger and are at the centre of the Project Tiger campaign set up by former Indian prime minister Indira Gandhi to save the animal from extinction.

Other attractions inclnde the city of Gwalior in the north of Madhya Pradesh which has one of Indian's most spectacular hill-top forts, one of the country's best preserved and ancient buddhist sites at Sanchi near Bhopal, a forest-covered and deserted medieval town and palace in jungle at Orchha in the north of the state and a huge and atmospheric hill-fort complex at Mandu set on a 20 sq km plateau.

The reason why these attractions do not attract more overseas visitors is the poor infrastructure – and a lack of development in a large state where leading tourist destinations are often isolated and a long way from each other.

Despite long lobbying by the state government, Madhya Pradesh has yet to gain permission to build an international airport and its domestic airports are woefully underserviced. There is only one, overbooked, flight a day from Delhi to the state capital Bhopal, for example.

There are rail connections through the state because many important rail services pass through this heartland state but road connections are poor. As with much of the rest of India, the roads are pitted with potholes and clogged with traffic.

The roads are not for the faint-hearted or the impatient. The 200km between Bhopal and Indore, for example, usually takes 4½ hours, sometimes more.

There also remains a shortage of basic tourist amenities, such as good hotels, outside of Khajuraho.

To rectify the situation, the state government has offered a series of incentives to encourage private sector development inclnding extensive tax holidays of 10 years. And some of the state's heritage properties are to be converted into hotels.

The Rajgarh Palace, near Khajuraho, has been leased ont to East India Hotels, owner of the Oberoi chain of hotels, for the development of a heritage hotel as a joint venture. Similar properties around the state also are being offered for redevelopment.

Tha state government is also attempting to alleviate the transport problems. There are plans to build air strips near the Kanha and Bandhavgarh national parks and roads between tourist centres are being improved.

However, if Madhya Pradesh is to become part of the beaten tourist track, much work still needs to be done.

■ **Mining:** by Tony Tassell

Curbs have been eased

Despite a policy of liberalisation, restrictions on foreign ownership still remain

The eyes of multinational mining companies are beginning to turn to Madhya Pradesh.

India's biggest state has 27 per cent of the country's mineral resources, a level second only to the neighbouring state of Bihar, according to government officials. Madhya Pradesh has reserves of diamonds, tin concentrate, slate quartzite, copper ore, coal, limestone and iron ore.

Until recently, these reserves were effectively kept out of reach of foreign companies by national government policy and by lengthy delays in approvals for projects. However, there has been a liberalisation of regulations to encourage investment in the sector.

In October, the Indian government increased the maximum area allowed for scarce and high-value mineral prospecting from 25 sq km to 5,000 sq km. The change had been long sought by foreign investors and should clear the way for prospecting to proceed.

In Madhya Pradesh, the main interest of the multinational mining honses appears to be potential reserves of diamonds in the Chhattisgarh region in the east of the state. Three joint ventures between foreign and domestic companies have had applications to prospect for diamonds in the region pending for nearly three years.

The ventures are between RTZ/CRA and Associated Cement Companies, a member of the Tata industrial group and the country's largest cement prodncer; De Beers and Reliance Industries, the Indian petrochemicals to power group; and Ashton Mining and Madhya Pradesh State Mining Development Corporation.

Madhya Pradesh state government officials headed by Mr Digvijay Singh, state chief minister, have led trade missions both to South Africa and Australia to negotiate with the companies.

Mr Lakshmi Narayan, state secretary of mines and minerals and managing director of the State Mining Corporation, said a decision on the award of licences to prospect in Madhya Pradesh for diamonds should now be made by January following the liberalisation of mining policy by the state government.

There are indications that all three joint ventures are likely to be offered tracts of land to prospect.

Mr John Bartram, director of joint venture CRA-ACC Exploration, said the extent of diamond reserves in the state were unknown. "We know there are some kimberlite pipes there with some diamonds, but beyond that not much is known," he said.

"Our application is aimed at prospecting to provide a more detailed picture of what is actually there."

The potential diamond prospecting projects and the trade missions to Sonth Africa and Australia have attracted no small measure of controversy in the state.

Politicians from the Chhattisgarh region, led by Mr Ajit Jogi, a member of the Indian upper house of parliament, have campaigned against the proposed ventures.

Mr Shyama Charan Shukla, a former chief minister of Madhya Pradesh, has told an Indian newspaper that there appeared to be a conspiracy to deprive the Chhattisgarh region of rich natural resources and to hand them over to a foreign company.

Mr Shukla said there was no need to invite any foreign company to do the mining because the technology for this existed within India.

There also appears to be some contention between the mining houses and the Indian government over royalty payments.

Under Indian government regulations, companies must pay a royalty of 20 per cent on the minerals they mine in the country. This is received by the state government. The mining houses are understood to be reluctant to pay what they see as an exorbitant royalty by international standards. The companies are believed to be lobbying the Indian government to reduce the royalties so development of reserves can proceed.

In addition, while the Indian government bas liberalised mining policy, restrictions still remain.

Under the new prospecting regulations, the maximum amount of land allowed to be prospected by one party falls to 1,000 sq km or 50 per cent of the area alloted one year after the licence has been awarded. By the end of the second year, the maximum area falls to 25 sq km. There is also a ceiling on the maximum area for mining operations of 10 sq km.

Restrictions also apply in the level of foreign ownership in mining ventures. A new mineral policy in 1993 theoretically allowed for the automatic approval for foreign equity stakes of up to 50 per cent in mining ventures. In practice, such proposals have needed clearance from the Indian government Foreign Investment Promotion Board.

Singh: led trade missions to South Africa and Australia

Mr Bhirenda Prasad Baishya, India's minister for steel and mines, last month indicated that the government had proposed automatic clearance of foreign equity stakes of up to 50 per cent in mining ventures.

However, be told an Indian newspaper that ventures in the gold, silver, diamond and precious metals sector would still be vetted on a case-by-case basis. This just happens to be the main interest of foreign mining companies in India.

■ **Power:** by Mark Nicholson

Deficit is getting worse

Decades of underinvestment and inefficiency have led to a chronic shortage

From 8am until noon it's lights out in Bhopal, the state capital.

To direct the state's increasingly scarce power snpplles to farmers threshing the vital "rabi" season soyabean crop, the city has been forsaking power for four morning bours. Only hospitals and the state's assembly have electricity.

"Even the chief minister's bungalow is not exempted," remarks one official in a dim, fanless office.

Madhya Pradesh's electricity deficit is already as grave as that of any of India's power-hungry states, and is worsening. The state's capacity of 3,814 MW, supplemented by a centrally-provided 1,700MW, leaves a current peak shortfall of 1,500MW, say officials, who add that the gap is rising by 10 per cent annually.

Unremedied, says Mr M. P. Rajan, managing director of the state's Industrial Development Corporation, the rising gap could prove "disastrous" to Madhya Pradesh'a industrial ambitions.

Hence the urgency of Mr Rajan's efforts to find a quick solution to a chronic power shortage, a result of decades of underinvestment by the state's loss-making electricity board and the inefficiency of its largely thermal generating plants.

His proposal, backed by new policy measures, is to encourage industrialists to build captive power plants, each preferably with excess output to feed into the state grid. "Rather than putting up 1,000MW plants and taking three or four years to do it," he says, "we would be putting up a large number of plants across the state as fast as possible."

The Development Corporation has already organised business trips to the US and Britain in search of power contractors willing to tie up with local investors.

Sithe Energies, a US power contractor, last month met a delegation of Madhya Pradesh's top industrialists in Delhi, with a view to such an arranged marriage.

As a dowry teaser, the state government is offering to buy surplus captive power at 1.5 times the electricity board's average rate of recovery for power it generated last year, an effective rate of Rs2.60 a power unit.

Some industrialists believe this rate will not prove sufficiently tempting, arguing that the real cost of generating dedicated power proves closer to Rs3.20. "If the government wants that extra power, it will have to raise the rates," says one senior business lobbyist.

Navertheless, Mr Rajan believes the new policy could swiftly provide an additional 200MW, and an eventual extra 1,000MW. He argues that funding smaller units of between 40MW and 200MW is more feasible than closing financial packages for the 19 big private power projects for which the state has already signed memorandums of understanding (MOUs).

"Ultimately, the captive route will be faster because many foreign utilities can raise the necessary amounts on their own balance sheets," he says.

Tying up finance for the bigger projects is certain to take longer, and prove more complex. Of 19 private power projects proposed in the state since the Indian government opened the sector to foreign and private capital in 1992, 11 have signed supply contracts with the state electricity board and five have been passed on to the Delhi authorities for "techno-economic" approval, the central government's imprimatur.

But the greater hurdle remains – finding a means of guaranteeing payments for the power from the loss-making electricity board, which already needs support of Rs5bn a year from the state's stretched exchequer. Without guarantees, private contractors say they cannot finance their projects.

> The board loses a fifth of its generated power through distribution

But alectricity ministry officials concede they have been unable to find a satisfactory underwriting mechanism.

Two proposals have been mooted: paying the power contractors through irrevocable letters of credit, and setting up escrow accounts filled by payments to the electricity board and on which the private contractors would have first charge.

The conundrum for the electricity board is that present receipts are too poor to afford escrow accounts for all the proposed projects. The board loses a fifth of its generated power through transmission and distribution "losses" – which includes widespread pilfering – and can charge virtually nothing for power supplied to the state's farmers, because of an election pledge made by Mr Digvijay Singh's Congress party in its successful 1993 election campaign.

"Today, the revenues of the state board are hardly sufficient to support, at the most, two 500MW projects," says one official.

The state's argument is that once the new projects come on stream, the electricity board's revenues will naturally increase as it gains additional, paying, industrial and domestic customers. So far, though, developers have said they cannot borrow against such undertakings.

■ **Bhopal – the aftermath:** by Rohit Jaggi

Disaster still casts shadow

In spite of all the relief efforts, the plight of many of the victims is still desperate

The majestic lakes that split Bhopal in two serve as picturesque markers of the wealth divide in Madhya Pradesh's capital. They also symbolise the gulf between the living and the dead in the wake of the world's worst industrial accident.

When, 12 years ago this month, US group Union Carbide's pesticide plant to the north of the city leaked a 40-tonne cloud of toxic gas, the lakes helped prevent the poison from reaching the more affluent south of the city.

Now the lakes symbolise the city's rebirth, with another American company attempting to set up a water sports venture on the peaceful reaches of the Upper and Lower Lakes.

But 1984 is never far away in Bhopal, and the shadow of the disaster hangs almost as heavy as the cloud of pesticide gas that killed at least 2,000 people in the early hours of December 3 and thousands more since.

State and central governments have both failed the victims, support groups say. Delhi has been accused of going easy on Union Carbide to avoid upsetting potential inward investors, and both it and successive state officials have come under fire for delays in the relief effort, as well as for alleged mismanagement and corruption.

Both centre and state have also been left with large bills. The action plan that runs to next March has a price tag of Rs1.88bn; 75 per cent paid by Delhi, the rest by Madhya Pradesh. The state's recently proposed plan for the next five years will cost Rs3.16bn.

But the city as a whole looks prosperous. The $470m agreed as victim compensation money between the central government and Union Carbide, and paid in 1992, has put some money into the community. About Rs9bn has been awarded so far, according to the Ministry of Chemicals and Fertilisers in Delhi, which oversees relief and compensation.

The city's infrastructure has also been strengthened, with a hospital building programme that will give it more beds per person than the US or European averages, when two big infirmaries currently under construction are completed, according to Mr Satinath Sarangi of the Sambhavna Trust, a charity for gas victims.

But even the expansion from one big hospital in the gas-affected area before 1984 to seven planned by 1998 is not enough, he says. Official figures show that 4,000 gas victims visit the city's hospitals every day for treatment of the lung, eye and gastric complaints caused by exposure to methyl isocyanate (MIC) gas.

The surge from 2,800 patients daily in 1985 is partially explained by a steep rise in cases of tuberculosis. The incidence of TB in Bhopal is now three times the national average of 19 cases per thousand people, according to health officials.

Dr Nalok Bannerjee, a local health researcher, says Bhopal is a "relative paradise" of sanitation and medical aid in a country where such facilities are usually conspicuous by their absence, but the effect is still unsatisfactory. "The standard of treatment for TB is high here," he said. "But even after that, the disease pattern is worsening."

He and others are sharply critical of the authorities over analysis of the effects of the gas. The Indian Council for Medical Research (ICMR) pulled out of the city in 1994, and postmortem examinations have not been routinely carried out since 1990. In addition, none of the ICMR final reports have yet emerged, and Dr Bannerjee accuses the organisation of denying researchers access to data it took back to Delhi.

Even the gas leak's death toll is still furiously fought over. The official figure for gas-related deaths is 4,138 to the end of October this year. Others claim the figure is much higher.

Dr Bannerjee puts the toll at "no less than 10,000 initially", while Abdul Jabbar Khan, convener of support group Bhopal Gas Peedit Mahila Udhyog Sangathan, says: "The current death toll is well over 25,000 and still counting."

Compared with its own figures for fatalities, the government's statistics on compensation claims for death look high. More than 15,300 were submitted when claims were accepted between 1986 and 1992.

Only now (December 10, for 60 days) are further compensation claims being entertained, mainly to satisfy a legal nicety overlooked in 1986. Yet many people were left out of earlier appeals, such as children whose parents were mistakenly advised not to submit separate claims for them.

Union Carbide's pesticide plant leaked toxic gas Magnum Photos

A further 250,000 claims will have to be taken seriously, says Mr D. S. Jain, registrar of the adjudication agency. They will add to the 600,000 claims already decided or under consideration.

The machinery to handle the claims is similarly vast. The agency currently has 50 judicial officers operating in 37 courts, backed up by 1,000 clerical staff, all funded by the union government. But the machinery did not even start to function until 1992, and was not in full swing before 1994.

So far it has made awards – ranging from the standard Rs25,000 where injury can be proven to a maximum of Rs500,000 – in 325,000 cases. About 200,000 cases from the first tranche are still to be judged, but Mr Jain says these are less likely to result in awards. Interim payments have been made to people whose cases are pending, but these are subtracted from the award, and payouts do not include an interest component.

The Ministry of Chemicals points out that the government has an open commitment to pay awards even if they exceed the $470m from Union Carbide.

But victims and support groups complain that a dozen years after the accident not much more than half of the compensation money has been disbursed. And Mr Jain admits that his courts' work will not be complete for at least 1½ to two years.

Mr Sarangi also alleges widespread corruption, with victims being able to guarantee a payout of Rs50,000-Rs60,000 with a Rs30,000 bribe.

However, Mr Tanwant Singh Keer, state minister for gas relief and rehabilitation, is angry about what he refers to as people making political capital out of the disaster. The opposition Hindu Bharatiya Janata Party in the state assembly is trying to have the whole of Bhopal declared gas-hit and therefore more likely to receive compensation. This is despite the initial ICMR study which zoned the city into 36 northern, affected wards and 20 unaffected areas.

Madhya Pradesh's Gas Relief and Rehabilitation Ministry aims to provide victims with vocational training and its principal secretary, Mr L. M. Meena, says that 2,486 homes have so far been built for gas victims, with another Rs120m set aside for housing in the new action plan.

The shacks against the walls of the still idle plant in which so many people died 12 years ago are no longer there – although there are similar structures just a quarter of a mile down the road – but the environment of the victims is still under threat. Mr Meena has just ordered urgent studies of water supplies from 40 wells around the Union Carbide plant following allegations that waste stored in three ponds has leached into the ground.

All the waste has been moved to one of the three ponds, which has now been covered with three metres of topsoil. But according to Mr Sarangi, local people are using scraps from the empty ponds' plastic liners to waterproof their shacks.

After so many years, the plight of many victims is still desperate. "Much has been done," says Mr Keer. "But a lot is to be done."

PROFILE City of Indore

Favourite destination for business

The bustling, dusty city of Indore, business capital of Madhya Pradesh, is unlikely to feature high on the list of tourist sights in India.

However, the city and surrounding area have become the state's most favoured destination for foreign and domestic business following rapid growth over the past 10 years.

The signs of this growth are in evidence all around the city. Two new hotels have been built to cater for business traffic; modern shopping malls offer the latest in consumer goods; management colleges continue to proliferate; and swarms of scooters swirl around the congested streets.

The relatively prosperous chaos of the city offers a clear contrast to Bhopal, just 200km or four hours' drive away. The laid-back state capital may be perceived in the west as a heavily industrialised city following the Union Carbide gas disaster in 1984, but Indore is more likely to fit the description.

"Indore is where the business community is. Bhopal is more of a political and administration centre," said Mr Rakesh Jain, regional chairman of the Confederation of Indian Industry.

"Indore is like a mini-Bombay, whereas Bhopal is like New Delhi."

Indore, which now has a population of 1.2m, originally developed as one of a small group of cities including Bombay, Ahmedabad and Surat that formed the crux of India's textiles industry. Textiles remain a significant industry in the region but the city and surrounding area have also become a centre for the vehicle industry and agri-business, particularly soya bean production and trading.

Pithampur, a sprawling, dusty industrial estate about 25km from Indore, is often optimistically referred to, by locals, as "the Detroit of India".

Among more than 500 companies with factories at the estate are leading Indian vehicle manufacturers such as Hindustan Motors, Kinetic Honda, Eicher Motors and Bajaj Tempo. The estate, one of 22 growth centres in Madhya Pradesh identified by the state government, also includes vehicle ancillary producers, engineering companies, electric engine manufacturers, pharmaceutical companies and textile mills.

Pithampur also has the state's only dry dock container depot to facilitate the export of goods abroad. At the depot, containers receive customs clearance on the spot rather than at India's crowded and congested ports.

Apart from this estate, industrial development in the region has also spilled into neighbouring cities such as Ujjain and Dewas.

Mr Vinod Aggarwal, general manager of finance and strategic planning at Eicher Motors, says much of the industrial growth has been largely led by incentives offered to companies by the state and national governments to develop what was once seen as a "backward" area. However, he adds that Indore also has other advantages. Located half way between Delhi and Bombay on a national highway, it is strategically located to serve both cities by road. Indore also has a large pool of "peaceful" workers and ready access to natural resources in the state to draw on.

In addition, plans are being made to expand Indore's limited airport to include international cargo. Currently, Mr Jain says, aircraft landing at Indore can only carry 70 per cent of their permitted cargo weight because of the short runway.

Mr Jain says that the business culture of Indore is a plus for development. He says the great majority of the population of Indore are immigrants from other states and no one community group dominates the city.

"There is a sense of entrepreneurship here. Immigrants are always more likely to take more risks to establish themselves," he says.

However, there are signs that the future growth of Indore and the surrounding region may be hampered by lack of infrastructure development and planning. As in other parts of the state, industry faces the hurdles of frequent power cuts and poorly-maintained roads. "If the power and roads were better, the growth would be much more," says Mr Aggarwal.

Mr Jain also says that the social development of city, such as schools and transport, is failing to keep pace with the industrial growth and there is little central planning to overcome this.

"Ten years ago, Indore used to be one of the greenest cities in India. It is no longer," he said.

Tony Tassell

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PAPER, PACKAGING & PRINTING - Cont.

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, FOOD - Cont.

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		[illegible]	—	0545c	ф	May Oct	9.9	—
Barlow		[illegible]	2.7	0105c	ф	Jan Jul	6.12	—
Gold Flds Prop R		139	-5	068c	1.5	Mar Sep	20.2	—
MK Props		65	—	083.9c	—	Mar Sep	9.95	—
SASOL		845	—	079c	—	Oct	9.88	—
SA Brews		[illegible]	-3.9	0280c	ф	Jul Feb	2.12	4113
Standard Bank		[illegible]	2.8	0284c	3.1	Sep Mar	—	—
Tiger Oats		780	—	0132c	ф	Jan Jul	10.8	—
Tongaat-Hulett		742½xd	-5	0138c	ф	Jan Jun	20.5	—

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
ф Figures or report awaited
♥ Rule 2.1(a)(V) Overseas incorporated companies listed on an approved exchange.
♣ Free annual/interim report available, see details below.
✝ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
# Price at time of suspension.
¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
◆ Merger bid or reorganisation in progress
§ Forecast dividend; cover based on earnings updated by latest interim statement.
♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. d Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend; cover relates to previous dividend. x Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment. Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. R Dividend is paid in whole or part on a FID (Foreign Income Dividend). U Gross. N Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £3350 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Glenmorangie B (AIBv), Car Group, Oliver Ashworth (Dist), Access Plus, Charterhouse Comms, Exeter Inv, Future Integration Tele, Geo Interactive, Recycling Services (AIM). Deletions: Innovations (RtGn), TNT (Trns), Cardcast, Pet City (AIM).

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 45p/minute cheap rate and 50p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

INDICES

	Dec 20	Dec 19	Dec 18	1996 High	1996 Low
Argentina					
General(29/12/77)	18005.32	17980.72	17718.35	19881.95 20/5	15297.25 22/8
Australia					
All Ordinaries(1/1/80)	2373.8	2351.7	2323.7	2394.70 25/11	2086.10 17/7
All Mining(1/1/80)	937.2	917.8	917.0	1118.40 8/6	909.80 13/12
Austria					
Credit Aktien(30/12/84)	378.84	378.34	378.99	394.98 31/5	348.18 8/1
Traded Index(2/1/91)	1127.45	1120.22	1125.76	1142.51 28/5	975.27 2/1
Belgium					
BEL20(1/1/91)	1885.13	1868.58	1861.39	1898.85 3/12	1574.80 2/1
Brazil					
Bovespa(29/12/83)	69422.0	68916.0	69104.0	69471.00 5/12	43901.80 2/1
Canada					
Metals Minls(1975)	5258.83	5206.22	5098.48	5884.80 8/5	4087.47 18/1
Composite(1975)	5890.70	5844.30	5727.80	6018.85 28/11	4730.70 15/1
Portfolio(4/1/83)	2900.50	2897.11	2812.96	3028.76 28/11	2327.38 12/1
Chile					
IGPA Gen(31/12/80)	4893.60	4882.51	4868.79	5804.33 8/1	4868.79 18/12
Denmark					
CopenhagenSE(3/1/83)	464.15	461.28	460.95	464.35 20/12	366.40 2/1
Finland					
HEX General(28/12/90)	2451.75	2433.39	2414.91	2481.98 18/12	1851.67 10/1
France					
SBF 250(31/12/90)	1537.42	1519.78	1503.51	1578.25 3/12	1258.18 2/1
CAC 40(31/12/87)	2278.53	2249.70	2218.89	2348.11 3/12	1887.85 11/1
Germany					
FAZ Aktien(31/12/58)	987.30	974.52	978.48†	1008.18 5/12	818.58 2/1
Commerzbank(1/12/53)	2878.30	2840.80	2853.80	2936.80 5/12	2370.18 2/1
DAX(30/12/87)	2854.45	2807.75	2820.75	2909.91 5/12	2284.98 2/1
Greece					
Athens SE(31/12/80)	936.20	943.71	924.79	1047.86 4/3	872.90 7/8
Hong Kong					
Hang Seng(31/7/64)	13131.4	12946.5	12766.00	13530.95 27/11	10204.87 2/1
India					
BSE Sens.(1979)	3110.19	3035.91	3001.24	4069.25 18/6	2745.05 4/12
Indonesia					
Jakarta Comp.(10/8/82)	632.52	626.31	629.45	634.57 9/12	512.48 2/1
Ireland					
ISEQ Overall(4/1/88)	2657.30	2650.81	2654.80	2700.04 4/10	2234.81 2/1
Italy					
Banca Comm Ital.(1972)	660.94	655.40	651.58	674.30 20/5	572.21 27/3
MIB General(2/1/95)	1121.0	1112.0	1105.0	1142.00 20/5	970.00 27/3
Japan					
Nikkei 225(16/5/49)	19590.48	19570.87	20093.03	22666.80 28/6	19570.87 19/12
Nikkei 300(1/10/82)	280.69	279.09	283.96	319.70 28/6	279.09 19/12
Japan					
Topix(4/1/68)	1475.84	1469.73	1488.49	1722.13 28/6	1469.73 19/12
2nd Section(4/1/68)	1855.31	1862.85	1883.31	2281.48 3/7	1855.31 20/12
Malaysia					
KLSE Comp.(4/4/86)	1203.06	1201.03	1181.89	1234.73 26/11	993.18 2/1
Mexico					
IPC(Nov 1978)	(u)	3330.14	3273.18	3432.79 27/8	2736.38 8/3
Netherland					
CBS TRtnGen(End 83)	723.3	721.0	713.3	730.20 3/12	636.50 2/1
CBS All ShrEnd 83)	427.5	423.2	418.7	428.50 3/12	326.70 2/1
New Zealand					
Cap. 40(1/7/86)	2349.98	2335.91	2351.22	2383.92 5/12	2025.14 7/6
Norway					
Oslo SE(4/2/83)	1593.43	1578.88	1588.33	1617.26 10/12	1238.88 30/1
Philippines					
Manila Comp(2/1/85)	3180.30	3154.38	3105.80	3324.40 5/7	2576.97 2/1
Portugal					
BTA 30(4/1/93)	2150.51	2145.17	2134.18	2150.51 20/12	1582.81 2/1
Singapore					
SES All-S'pore(2/4/75)	527.98	530.38	530.05	610.37 5/2	503.78 21/10
South Africa					
JSE Gold(28/9/78)	1501.9¶	1491.3	1488.7	2080.46 29/5	1348.48 2/1
JSE Ind.(28/9/78)	7795.8¶	7724.7	7635.1	8739.30 25/1	7688.90 17/12
South Korea					
KoreaCompEx"(4/1/80)	700.87	690.97	651.39	986.84 7/5	651.39 18/12
Spain					
Madrid SE(30/12/85)	428.57	423.42	415.93	428.57 20/12	323.75 11/1
Sweden					
AffarsvarldenGen(1/2/37)	2358.5	2345.7	2328.3	2358.50 20/12	1706.80 22/1
Switzerland					
Swiss Bk Ind(31/12/58)	1844.45	1839.81	1838.31	1866.18 3/12	1518.19 17/1
SBC General(1/4/87)	1304.74	1301.32	1298.91	1315.83 3/12	1114.47 26/1
Taiwan					
WeightedPr."(30/6/66)	6890.66	6839.40	6856.52	6982.81 2/12	4690.22 6/2
Thailand					
Bangkok SET(30/4/75)	816.79	832.60	853.82	1415.04 6/2	816.79 20/12
Turkey					
Istanbul Comp.(Jan 1986)	94579.1	94461.1	94304.4	94579.10 20/12	36775.37 2/1
WORLD					
MS Capital Intl(1/1/70)	813.8*	813.0	807.8	837.26 25/11	725.90 15/1
CROSS-BORDER					
Eurotrack 100(26/10/90)	1868.23	1865.10	1865.83	1889.48 3/12	1504.40 11/1
Euro Top-100(26/6/90)	1588.98	1580.40	1588.38	1593.23 3/12	1333.01 11/1
HSBC JC Drgn(31/12/88)	(c)	403.50	402.00	420.28 27/11	344.19 2/1
ING Bngs Eurp(7/1/92)	158.15	157.64	155.59	166.81 4/7	147.36 2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x index)							
Dec	2281.0	2280.0	+25.0	2285.5	2277.0	18,285	22,754
Jan	2286.0	2284.0	+25.5	2289.5	2282.0	1,911	8,095
DAX							
Dec	2883.0	2853.0	+5.0	2895.0	2851.0	20,600	78,949
Mar	2881.0	2885.0	+12.5	2895.0	2871.0	262	-
OMX							
Dec	1851.00	1845.00	+11.00	1862.00	1841.00	6,473	11,894
Jan	1859.00	1849.00	+10.00	1867.50	1848.00	5,016	20,819
SOFFEX							
Dec	3919.0	3895.8	+4.8	3919.0	3895.0	1,795	10,724
Jan	3913.0	3895.0	+4.0	3921.0	3892.0	3,993	17,479

** Sat Dec 14: Taiwan Weighted Price 6889.19; Korea Comp Ex 687.54. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BTA30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ‡ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Dec 20 – 2858.64 +10.71. † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ◆ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

US INDICES

Dow Jones	Dec 20	Dec 19	Dec 18	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6484.40	6473.64	6346.77	6547.79 (25/11)	5032.94 (10/1)	6547.79 (25/11/96)	41.22 (8/7/32)
Home Bonds	103.78	103.46	103.20	106.89 (14/2)	100.99 (15/7)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2270.47	2255.87	2236.58	2315.47 (5/12)	1882.71 (18/1)	2315.47 (5/12/96)	13.23 (8/7/32)
Utilities	234.88	232.53	228.49	238.12 (25/11)	204.86 (30/7)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 6507.43 (6489.40) Low 6445.10 (6352.15) (Theoretical◆)
Day's high 6546.89 (6477.87) Low 6479.41 (6348.77) (Actual◆)

Standard and Poors	Dec 20	Dec 19	Dec 18	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	748.87	745.76	731.54	757.03 (25/11)	598.48 (10/1)	757.03 (25/11/96)	4.40 (1/6/32)
Industrials¶	876.08	875.59	860.15	887.49 (2/12)	702.07 (15/1)	887.49 (2/12/96)	3.52 (30/6/32)
Financial	83.44	82.83	80.24	84.83 (29/11)	58.87 (10/1)	84.83 (29/11/96)	7.13 (4/9/74)
NYSE Comp.	394.11	392.10	385.17	398.85 (25/11)	321.41 (10/1)	398.85 (25/11/96)	4.64 (25/4/42)
Amex Mkt Val	582.01	578.53	574.96	614.98 (22/5)	525.80 (16/7)	614.98 (22/5/96)	29.13 (9/12/74)
NASDAQ Comp	1288.54	1295.86	1285.38	1316.27 (9/12)	988.57 (15/1)	1316.27 (9/12/96)	54.87 (3/10/74)

RATIOS

	Dec 13	Dec 6	Nov 29	Year ago
Dow Jones Ind. Div. Yield	2.09	2.05	2.02	2.27
	Dec 18	Dec 11	Dec 4	Year ago
S & P Ind. Div. yield	1.87	1.85	1.83	1.98
S & P Ind. P/E ratio	22.74	23.04	23.05	18.75

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
CocaCola	11,395,000	53⅝	+1⅜
Hanson	8,356,800	6¼	—
WalMart	8,038,000	23⅝	+¼
AT&T	7,401,900	39⅛	−⅜
PepsiCo	6,997,300	29¼	+½
Gen Elec	6,713,800	102⅛	−⅛
Merck	5,847,300	82⅝	+1⅜
John & Jhn	5,319,500	49⅝	−⅛
Ford Motor	4,906,900	31¾	+⅛
GTE Corp	4,519,800	43⅝	+1

TRADING ACTIVITY

Volume (million)	Dec 20	Dec 19	Dec 18
New York SE	650.065	522.316	500.398
Amex	28.057	28.058	23.259
NASDAQ	(u)	553.070	635.471
NYSE			
Issues Traded	3,387	3,331	3,350
Rises	1,594	1,816	1,581
Falls	946	759	932
Unchanged	815	756	836
New Highs	214	163	74
New Lows	50	61	60

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
S&P 500							
Mar	763.50	757.25	+5.75	765.00	752.75	92,522	180,889
Jun	772.00	763.60	+3.70	770.50	761.50	298	5,389
Nikkei 225							
Mar	19780.0	19590.0	−70.0	19820.0	19540.0	33,176	205,890
Jun	19780.0	19600.0	−170.0	19780.0	19600.0	4,335	25,259

Open interest figures for previous day.

TOKYO - MOST ACTIVE STOCKS: Friday, December 20, 1996.

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	9.6m	345	+11
Yaohan Jpn Corp	8.2m	365	+2
Taisho Pharm	7.1m	2,550	+40
Toshiba Corp	6.6m	710	-6
Mitsubishi Hvy	6.1m	914	+4
Sumitomo Mtl Ind	4.2m	292	-9
Keisei El Rly	4.1m	755	+5
Tokio M&F Ins	3.7m	1,090	+20
Nomura Sec	3.7m	1,780	
NEC Corp	3.5m	1,350	+40

4 pm close December 20

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
32	28¾	AAR	0.48	1.7	24	1223	29	d26⅝	28	+2¼
48⅛	33	AMP	1.00	2.8	10	6318	39	38	38⅞	+⅞
97½	66	AMR			17	4919	88⅝	28⅝	87⅞	+⅛
50½	34⅜	ASA	1.20	3.5	26	570	35	34⅝	34⅛	
57⅞	38⅛	AbbtL	0.96	1.8	22	24722	53¾	52⅞	52¾	+⅞
17⅞	12¼	Abitibi Pr x	0.40	2.5	8	1199	10	15⅞	10	+⅝
20¼	13½	ABM Ind	0.40	2.4	18	151	16⅞	16½	16⅞	+¼
22½	18⅞	Acptocain			8	433	20¼	20	20	
60	21¾	ACE Ltd	0.72	1.3	0	696	57⅞	27	27	-⅛
10⅜	9⅛	ACM Gvt In x	0.90	8.5	11	554	10¼	10⅛	10¼	+¼
7⅞	6⅝	ACM GvOpp x	0.57	7.0		51	7¼	7⅛	7⅛	
9⅞	8⅞	ACM Man x	0.90	9.4		322	9¾	9½	9⅝	-⅛
13⅞	8⅝	Acme Elect				439	7⅛	7	7⅛	+¼
21⅝	13⅞	Acme Mills			14	35	20	13⅞	20	
33¾	27¾	Acordia x	0.08	2.7	14	38	29½	28¼	29¼	-⅛
24⅞	12	Acuson				1523	23½	22¾	23½	+⅞
21⅛	17⅞	Adams Expr x	0.55	2.8	1	515	19⅞	19¾	19¾	
28⅜	10¼	Advatic			28	9949	28⅞	25¾	28	-¾
11⅛	8½	Advest Grp			7	202	10⅝	10¼	10⅝	+⅜
26⅛	9⅛	Advo Inc			26	167	12⅞	11¾	12⅛	+½
56⅞	41⅛	Aegon	1.10	2.1	10	47	u58¾	58⅞	58¾	+⅞
6¾	3½	Aerfix				209	4½	4⅞	4⅞	
76½	57⅝	Aetna	0.80	1.1	43	11507	76⅞	75	75⅛	-½
44	28¼	Aflac	0.40	0.9	17	2749	42⅞	42	42¼	+½
[illegible]										

\- B -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]										
11⅛	8⅝	BattMt	0.50	0.7		7263	7¼	d6⅞	8⅝	-⅛
44½	32½	Bausch x	1.04	2.8	31	7668	36¾	35¼	35¼	+1
46¾	30	Baxter x	1.13	2.7	20	13175	43¼	41¼	41⅞	
43⅞	18⅝	BayNtwks				3217333	22	21¾	24	
30⅞	25⅞	Bay St Gas	1.54	5.4	14	81	28¾	28⅝	20⅛	+½
40⅞	18¾	BBN				977	23¼	22⅜	22½	+¼
22¾	16⅞	Bd Tr 1838 x	1.56	7.9		41	19¾	19⅝	19¾	-¼
6⅞	7⅛	BEA Incp	0.72	0.9		891	7⅝	7½	7½	
0⅜	8½	BeaStrat	0.61	8.8		06	9⅛	0	9⅛	+⅛
27⅞	17¼	Gear Sims	0.80	2.2	7	2398	26⅞	25⅞	26¾	+⅞

\- C - \- D - \- E - \- F - \- G - \- H - \- I - \- J - \- K - \- L - \- M - \- N - \- O - \- P - Q - \- R - \- S -

[illegible]										

Continued on next page

NYSE PRICES

4 pm close December 20

Continued from previous page

[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. s/s-splits. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

‡ Dealings suspended.

NASDAQ NATIONAL MARKET

4 pm close December 20

[illegible]

AMEX PRICES

4 pm close December 20

[illegible]

FT GUIDE TO THE WEEK

MONDAY 23

Rao successor selected

India's 111-year-old Congress party has set today as the deadline for selecting a successor to P.V Narasimha Rao, who was forced by senior colleagues last week to stand down as party parliamentary leader. Mr Rao is facing trial in three corruption cases. Contenders include Sitaram Kesri, the 78-year-old lifetime Congress politician who succeeded Mr Rao as party president in September, Shawad Pawar, the former defence minister and once chief minister of Maharashtra state, and Manmohan Singh, former Congress finance minister and architect of India's five-year-old economic reform programme.

Israel budget debate

Israel's 1997 budget hangs in the balance when the Knesset, or Israeli parliament, debates plans by Benjamin Netanyahu, the prime minister, to cut next year's budget in a bid to bring the fiscal deficit down from between 4 per cent and 4.5 per cent to 2.8 per cent of gdp in 1997. If the Knesset, which has until December 31 to decide, fails to pass it, the 1996 budget will remain in force for another three months. Investors would wonder even more about the direction of macroeconomic policy and the budget would go back to the Knesset in March. If it failed again, new elections would have to be called.

Aboriginal land decision

Australia's High Court rules on whether the Wik people can proceed with a native title claim over a large tract of land in northern Queensland. The decision could have big implications for both aboriginal communities and mining companies. Ever since Australia set up a procedure by which aboriginal communities could claim native title three years ago, there has been confusion over whether land previously subject to pastoral lease – about 40 per cent of Australia's land mass – could be claimed. The Wik ruling is likely to clarify this issue.

S Korea corruption ruling

Two former South Korean presidents are expected to ask the supreme court to overturn their convictions for sedition and corruption. An appeals court last week commuted Chun Doo-hwan's death sentence to life imprisonment, while reducing Roh Tae-woo's sentence to 17 years from 22 years. The former presidents were convicted in August of staging a military coup that brought them to power and of subsequently ordering a crackdown on pro-democracy demonstrators, when at least 200 people were killed. They were also found guilty of illegally amassing $1bn (£500m) in political slush funds.

A big week for English soccer clubs: yesterday Aston Villa beat Wimbledon 5-0 to go fourth in the Premiership

Mastering Enterprise

The 12-part FT Mastering Enterprise series on entrepreneurship continues in the Financial Times, with part six. The series covers every stage from starting a company to building and sustaining entrepreneurial attitudes in large organisations and the public sector. (UK and continental editions only; for orders, call 0171 538 1164 or fax 0171 537 3594, price £4 per copy or £30 for the series.)

Taiwan worries over China

An inter-party conference in Taipei will discuss national affairs, particularly relations with mainland China (to Dec 28). The conference, called by President Lee Teng-hui, comes as domestic concern grows over the international status of Taiwan after South Africa's decision to cut diplomatic links.

Soccer

Christmas is stressful for clubs seeking prominence in the English Premiership competition where the financial stakes are constantly rising. Today, Liverpool visit Newcastle before playing Leicester at home on Boxing day and Southampton (away) on Sunday. Arsenal face Sheffield Wednesday (Boxing day) and Aston Villa (Saturday). Wimbledon play West Ham (Boxing day) and Everton (Saturday).

FT Survey

Madhya Pradesh (India).

Public holidays

Japan, San Marino.

TUESDAY 24

Egypt/Israel talks

Hosni Mubarak, the president of Egypt, and Yitzhak Mordechai, Israel's defence minister, are to hold talks with the future of the peace process high on the agenda. The meeting comes in the wake of very sharp criticism by Egypt of the Jewish settlement policies in the West Bank, and a lack of progress in the peace process since the election last May of the conservative Likud-led coalition headed by Benjamin Netanyahu, Israel's prime minister. The continuing detention in Egypt of an Israeli citizen on alleged charges of spying may also be raised.

Assembly in Havana

Cuba's National Assembly holds a working session on Christmas Eve to approve the 1997 budget and economic plan and other pending legislation. The double session is expected to extend through Christmas day. The Christmas assembly goes ahead despite the warming of relations between Cuba's communist government and the Catholic church, marked by a historic meeting last month between Fidel Castro, the president of Cuba, and Pope John Paul II. The Pope is to visit the island next year. Measures are also expected to try to counteract the US Helms-Burton law, which seeks to curb foreign investment in Cuba.

Public holidays

Andorra, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Liechtenstein, Macau, Portugal, San Marino, Slovakia, Sri Lanka, Sweden, Switzerland, Vatican City.

WEDNESDAY 25

Japan budget approval

The Japanese cabinet of Ryutaro Hashimoto, the prime minister, meets to adopt the 1997 budget, which calls for the first fiscal tightening – a reduction in the annual budget deficit, as a percentage of gross domestic product – since the turn of the decade. Spending is set to rise by just 3 per cent, a little over half last year's growth rate of 5.8 per cent.

Public holidays

Markets in the Christian world close to celebrate Christmas day.

THURSDAY 26

Junkanoo in Bahamas

The Bahamas Junkanoo, a Christmas festival, begins at 2am. Groups in elaborate and colourful costumes dance through the streets to the music of drums in a mixture of Trinidad carnival and New Orleans Mardi Gras. The main parades are in downtown Nassau, Bahamas' capital on New Providence island, and in Freeport on Grand Bahama island. It is a spectator event – one does not participate unless a member of a costumed band.

Drylands defended

A United Nations convention to combat desertification comes into force. The convention, adopted in 1994 and signed by 114 countries, aims to prevent further land degradation by promoting better water management and farming practices in the world's drylands. Desertification already affects almost 30 per cent of the earth's land area. According to UN estimates, desertification costs $42bn a year in lost food production, while more than 135m people may be in danger of being driven from their land. Although Africa is the worst affected, desertification is also a problem in North America and southern Europe.

Li Peng in Russia

The Chinese premier, Li Peng, makes an official two-day visit to Moscow. Trade matters are expected to be discussed as well as military co-operation, with Russia having resumed arms sales to China after a 30-year lull.

Horse racing

Britain's most prestigious mid-winter jumps race, the King George VI Steeplechase, is run at Kempton Park racecourse, near London.

Ocean racing

Start of the Sydney to Hobart yacht race. Competitors set forth from Sydney harbour, Australia.

Public holidays

Andorra, Aruba, Australia, Austria, Bahamas, Barbados, Belize, Bermuda, Botswana, British Virgin Islands, Bulgaria, Canada, Cayman Islands, Cook Islands, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Fiji, Finland, Germany, Ghana, Gibraltar, Greece, Hong Kong, Hungary, Iceland, Ireland, Italy, Jamaica, Kenya, Latvia, Liechtenstein, Lithuania, Luxembourg, Macao, Montserrat, Netherlands, Netherland Antilles, New Zealand, Nigeria, Norway, Poland, Romania, San Marino, Slovakia, Slovenia, South Africa, Suriname, Swaziland, Sweden, Switzerland, Tanzania, Trinidad, UK, Vatican City, Virgin Islands, Zimbabwe.

FRIDAY 27

Romania/Hungary relations

Adrian Severin, Romania's newly appointed foreign minister, visits Budapest for talks with Laszlo Kovacs, his Hungarian counterpart. A bi-lateral treaty between the two neighbouring countries – historic rivals – was recently ratified. The new centre-right Romanian government, which includes representatives of the country's large ethnic Hungarian minority, has made improved relations with Hungary a priority. Under the previous Romanian government, which included extreme nationalists, relations were strained.

Public holidays

Botswana, Hungary, India, Ireland, Vatican City.

SATURDAY 28

Chess

The traditional Hastings Congress, held since 1920 and the longest-running annual chess tournament, opens at the Cinque Ports hotel with Britain's No 2, Michael Adams, top-seeded to win the Premier (to Jan 5). Former world woman champion Xie Jun is Hastings' first Chinese entrant. But the show stealer may be at the Pier Ballroom in the Challengers tournament, where 12-year-old Westminster schoolboy Luke McShane should move close to becoming the UK's youngest international master.

Public holidays

Costa Rica, India, Nepal.

SUNDAY 29

Ivory Coast election

Ivory Coast holds legislative and municipal elections in the western opposition stronghold of Gagnoa. Originally scheduled for October 1995, they were postponed because of violence during the run-up to the polls which pitted members of the Bete tribe, in the majority locally, against the Baoule tribe. The opposition challenger, Laurent Gbagbo, is a Bete while the ruling Democratic party of Ivory Coast recruits heavily from the Baoule tribe. Many villages were burnt to the ground and more than 3,500 people, mainly Baoule, were displaced by the ethnic fighting.

Nepal no-confidence vote

The House of Representatives in Kathmandu holds a second debate on a no-confidence motion against Sher Bahadur Deuba, the prime minister of Nepal.

Peace in Guatemala

A peace agreement is to be signed in Guatemala ending a 36-year-old war between governments and the left-wing Guatemalan National Revolutionary Unity rebel forces. About 140,000 people are thought to have died – many of them the civilian victims of the military's "scorched-earth" counter-insurgency policy in the early 1980s, when the conflict was at its most intense. The treaty is the culmination of three years of talks, which have speeded up since Alvaro Arzu, a rightwing, modernising president, took office last January.

Compiled by Simon Strong.
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ECONOMIC DIARY

Other economic news

Monday: Minutes of the October 30 meeting between UK finance ministers and the Bank of England governor are published. Inflation in western Germany is thought to have been relatively stable last month. The annual rate of Spanish wage increases may have eased a little in the third quarter.

Tuesday: The UK's visible trade deficit with the rest of the world is forecast to have narrowed in October, although the non-EU deficit may have widened in the subsequent month. Mexico's international reserves are thought to have been little changed on December 20.

Wednesday: US, European and Latin American markets shut for Christmas day.

Thursday: Bank of France monetary policy meeting. Unemployment in Spain is thought to have risen in September, while industrial production may have slipped back in Japan last month.

Friday: Inflation in Japan is thought to have been stable last month, although the rate in Tokyo may be picking up this month. US durable goods orders are expected to have been flat last month after October's rise.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Chile	Oct Imacec**	5.20%	5.0%		Japan	Nov industrial production†		3.9%
Dec 23	Ireland	Oct Non-EU trade	I£170bn	I£153.3m		Japan	Nov shipments†		3.7%
	US	Nov personal income	0.6%	Unch		Japan	Nov Bank of Jap corp ser'ces prices*		-0.6%
	US	Nov PCE	0.3%	0.5%		Japan	Nov Bank of Jap corp ser'ces prices**		0.0%
	Canada	Oct Int'l securities transactions		C$500m		Japan	Dec WPI (second 10 days)		0.2%
	Spain	Q3 wage rises**		4.6%		Spain	Sep unemployment rate (EPA)		21.9%
	Germany	Dec Prelim cost of living, West*	0.3%	-0.1%	Fri	Japan	Dec CPI (Tokyo)*		0.1%
	Germany	Dec Prelim cost of living, West**	1.4%	1.4%	Dec 27	Japan	Dec CPI (Tokyo) ex-perishables*		-0.1%
Tues	US	Oct Imacec**	5.20%	5.0%		Japan	Nov CPI (national)**		0.5%
Dec 24	Austr'la	Nov motor vehicle registrations		-5.8%		Japan	Nov CPI (national) ex-perishables**		0.2%
	Japan	Oct coincident index		75.0%		Japan	Nov unemployment rate		3.4%
	Japan	Oct leading differential index		60.0%		Japan	Nov job offers/seekers ratio		0.73
	France	Oct trade balance†	FFr10bn	FFr10.1bn		France	Nov household consumption†	-0.6%	-2.6%
	UK	Oct global visible trade	-£800m	-£699m		Italy	Nov hourly wages**		3.7%
	UK	Nov ex-EC visible trade	-£800m	-£424m		US	Nov durable orders	0.3%	0.3%R
	Canada	Oct real GDP, factor cost*		0.1%		US	Nov durable shipments		-1.1%R
	US	BOT Mitsubishi 21 Dec		0.7%	During the week...				
	Mexico	International reserves, Dec 20		$16.3bn		Switz'nd	Dec federal CPI*	0.0%	-0.1%
	Mexico	Net international asset, Dec 20		$5.21bn		Switz'nd	Dec federal CPI**	0.7%	0.7%
	Mexico	Monetary base, Dec 20		$64.8bn		Belgium	Dec CPI*	0.0%	0.2%
	US	Redbook, Dec 21		0.6%		Belgium	Dec CPI**	2.3%	2.4%
	Mexico	Dec 2 week CPI*		0.89%		Japan	Dec trade balance (first 10 days) not†		Y237bn
Thurs	Japan	Nov construction orders**		1.5%		Japan	Nov supermarket sales**		0.9%
Dec 26	Japan	Nov housing starts**		21.4%		Japan	Nov department store sales**		1.6%
	Japan	Nov construction starts**		19.3%					

*month on month, **year on year, †seasonally adjusted. Statistics, courtesy MMS International.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 22.12.96 / Firm Prices for Trading on 21.11.96

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	11.70	11.68	11.68
0100	19.57	22.81	24.13
0130	19.57	22.81	24.13
0200	19.57	22.81	24.13
0230	19.57	22.81	24.13
0300	18.89	21.67	23.19
0330	16.72	21.87	23.19
0400	18.89	21.87	23.16
0430	14.37	18.24	20.56
0500	11.87	12.39	13.71
0530	11.68	15.71	17.03
0600	11.68	15.71	17.03
0630	11.69	15.71	17.03
0700	11.69	15.71	17.03
0730	11.68	15.71	17.03
0800	11.68	15.71	17.03
0830	11.68	15.29	16.60
0900	11.69	11.67	12.98
0930	11.71	11.68	11.68
1000	11.82	11.72	11.72
1030	16.62	15.71	17.03
1100	16.81	17.58	18.90
1130	16.62	17.58	18.90
1200	19.12	17.58	18.90
1230	18.59	23.19	24.50
1300	19.12	23.19	24.50
1330	19.12	17.31	18.63
1400	19.12	18.73	18.05
1430	11.81	11.79	11.79
1500	11.74	11.68	11.68
1530	11.74	11.71	11.71
1600	19.12	11.79	11.79
1630	19.12	16.81	18.13
1700	19.23	17.31	18.63
1730	24.01	22.74	24.06
1800	36.12	23.74	24.06
1830	21.14	22.73	24.05
1900	21.14	21.05	22.37
1930	21.14	17.31	18.63
2000	18.31	16.95	18.27
2030	18.31	17.31	18.63
2100	18.31	16.95	18.27
2130	16.79	16.95	18.27
2200	16.79	16.15	17.47
2230	11.72	16.50	17.81
2300	11.72	11.68	11.68
2330	11.71	11.68	11.68
2400	11.71	11.67	11.67

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.85/MWh becomes 1.685p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or [illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on [illegible] / Firm Prices for Trading on [illegible]

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	11.71	11.73	11.73
0100	16.79	16.15	18.19
0130	24.89	24.99	26.93
0200	24.89	24.89	26.93
0230	16.79	16.15	18.19
0300	16.79	16.15	18.19
0330	16.48	16.15	18.19
0400	11.61	16.15	18.19
0430	11.71	16.10	18.14
0500	11.71	11.73	11.73
0530	11.67	11.67	11.67
0600	11.67	11.66	11.66
0630	11.67	11.68	11.68
0700	11.68	11.92	11.92
0730	16.61	15.52	17.56
0800	18.72	16.67	18.72
0830	24.01	16.88	18.93
0900	33.68	17.25	19.37
0930	18.13	17.60	19.83
1000	18.13	20.53	22.85
1030	18.13	20.75	23.14
1100	17.23	21.03	23.50
1130	17.23	58.52	59.03
1200	18.16	56.70	59.26
1230	18.16	19.20	21.89
1300	18.16	19.01	21.46
1330	11.81	16.65	20.99
1400	11.72	16.67	20.89
1430	11.72	18.44	20.73
1500	11.72	18.43	20.71
1530	11.75	19.29	21.85
1600	16.80	36.81	36.81
1630	21.87	130.17	159.60
1700	25.13	257.48	289.16
1730	25.14	274.98	314.91
1800	25.12	202.92	232.69
1830	21.86	78.80	92.87
1900	21.85	37.88	43.88
1930	20.42	25.32	28.59
2000	20.42	19.74	22.20
2030	16.80	17.16	19.36
2100	16.80	16.63	18.89
2130	16.61	16.89	18.70
2200	16.30	16.83	18.64
2230	11.72	15.51	17.58
2300	11.72	11.73	11.73
2330	11.72	11.69	11.69
2400	11.72	11.69	11.69

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour rounded to two decimal places. To convert prices to pence per kilowatt hour the decimal point should be moved one place to the left, eg £16.85/MWh becomes 1.685p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty four days after the day of trading. Accordingly, due to the possibility of their revision and/or [illegible]

MONDAY PRIZE CROSSWORD

No.9,257 Set by DANTE

A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday January 2, marked Monday Crossword 9,257 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday January 6. Please allow 28 days for delivery of prizes.

Name..

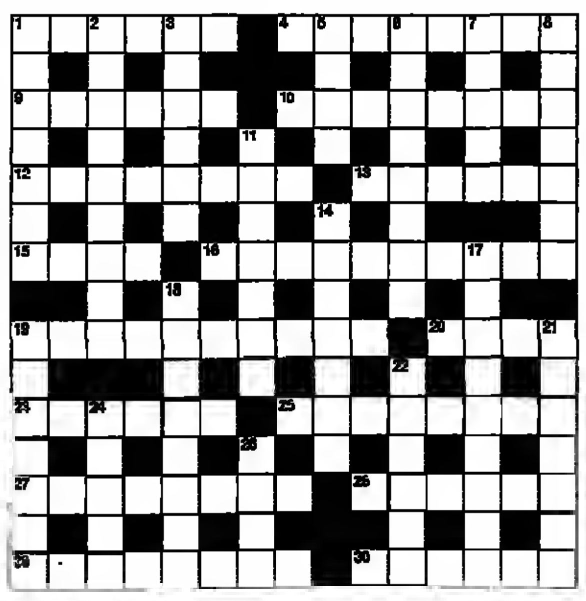
Address..

ACROSS

1 Champion boxer, perhaps (3,3)
4 Evidently a painter of note (8)
9 Perfume sent back – to many it's not acceptable (6)
10 Continentals involved in fracas (8)
12 Burn slowly, soon beginning to turn to dust (8)
13 Not his sort of cult (6)
15 Prune spruce (4)
16 Train officer, one of the same class (10)
19 Use fingers to eat a plum in the break (10)
20 A lifetime of bridge (4)
23 Strays around in the woods (6)
25 Take part in a show trial (8)
27 Larry won somehow, but not by a lot (8)
28 Such a fare is economical (6)
29 An enclosed place might be costlier (8)
30 When to tell all? (6)

DOWN

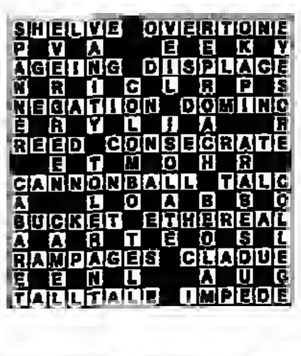
1 Travelling goods will be in it (7)
2 Advertising in advance (9)
3 Carole's making an announcement (6)
5 Fit of petulance encountered playing draughts? (4)
6 A little arch containing a lamp (8)
7 A number make money and gain experience (5)
8 Support a mineral cure (7)
11 Their lead decreases and they often draw (7)
14 They go on tiny feet (7)
17 It provides good tips for consumers (9)
18 False encouragement given on debts (8)
19 Kind of lodge Monica's built (7)
21 Stacks of chalk required by dressmakers? (7)
22 Educational measure? (5)
24 A trunk with tangled roots (6)
26 Colourful source of surprise (4)



Winners 9,246

B.J. Duesbury, Nottingham
A.R. Davies, Cardiff
R. Gedling, Epsom, Surrey
David J. Harrison, Pool, Leeds
F.S. Johnson, Stourbridge
R.T. Wrinch, Bramhall, Cheshire

Solntion 9,246



JOTTER PAD

هكذا من الاصل